The Washington Monthly

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THE QUESTIONS THEY DON'T ASK ON MACNEIL/LEHRER

•

NICHOLAS LEMANN ON THE 1939 WORLD'S FAIR

•

HOW A LAUGHINGSTOCK AGENCY GOT RESPECT

IN 1972, CHIEF EXECUTIVES AT AMERICA'S TOP COMPANIES MADE 40 TIMES THE AVERAGE WORKER.

TODAY, THAT RATIO IS MORE THAN 140 TO ONE.

THE CASE FOR UNIONS

By Sean Reilly

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He's the Media's Lyin' King

We're the magazine that gets under his skin

He's often called "provocative." A habitual liar would be more accurate. Rush Limbaugh, the multimillionaire huckster who purports to speak for the little guy, doles out falsehoods, misinformation and bogus conspiracy theories on a daily basis.

Much of what Limbaugh says would be laughable if not for the millions of people who believe him when he claims that "the poorest people in America are better off than the mainstream families of Europe"; or that a university study proved that the bigger the bra size, the smaller a woman's I.Q.; or that "styrofoam and plastic jugs are biodegradable."

On and on it goes. Yet even more disturbing than his Limbecile statements is the fact that many media treat him as an authority. ABC's Ted Koppel presented Limbaugh as an "expert" on the environment and on Whitewater. Limbaugh recently dispensed his wisdom as a pundit on *This Week With David Brinkley*.

Limbaugh Gets Stung

Not long ago FAIR, the progressive media watch group, had a novel idea for a stinging rebuke to Rush Limbaugh — the truth. We published a report in *EXTRA!*, our award-winning magazine, that exposed Limbaugh as a charlatan.

The response was so overwhelming that we decided to expand our report into a book, *The Way Things Aren't: Rush Limbaugh's Reign of Error*, which documents and corrects over 100 whoppers told by the Lyin' King — in areas ranging from American history to the economy, feminism to the environment, health care to rock 'n' roll. It also features cartoons by Garry Trudeau and Tom Tomorrow, seven things you can do about Limbaugh and an introduction to Limbaughland by Molly Ivins.

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Letters

Defending Alsop

David Halberstam is a valued friend whose journalism I greatly respect. But I must quarrel a bit with his recent letter ("Yoder's Pumpkin Papers," June) to you concerning my book on Joe Alsop.

I am entertained by Halberstam's curious identification of Joe's 1951 *Saturday Evening Post* series on China with the Pumpkin Papers secreted by Whittaker Chambers on his Maryland farm. I can say with some assurance, having examined the relevant documents in the Alsop papers, that for his *Saturday Evening Post* series Joe drew upon his personal files and on documents cited in the State Department White Paper. How the Pumpkin Papers got dragged into this I don't know.

That said, let me address the disagreement between Halberstam and me regarding Joe Alsop and the two China hands, Service and Davies, who came to believe that Joe's *Post* series had instigated their "personal nightmares." In *Joe Alsop's Cold War* (pp. 52-53), I write about Halberstam's characterization of the *Post* series in *The Best and the Brightest*: "There was some slight truth in Halberstam's evaluation, but it grossly misconceived the attitude of the *Post*'s editors and of Joe Alsop's partial but more subtle argument.... Joe's villain was Stilwell, not the State Department China Hands who would soon bear the brunt of right wing anger." I stand by that judgment and I think any impartial reader of the three articles (the first of which was "The Feud Between Stilwell and Chiang") will agree with me, and also with my view (p. 193) that David Halberstam's evaluation of the Alsop series was "severely bent through the antiwar lens of the late sixties."

Halberstam makes it sound as if Joe came late to the anti-McCarthy fray, prompted only by the attack on Acheson, and that his defense was somehow grudging. On the contrary, Joe and his partner/brother Stewart were among the earliest, sharpest, and most relentless press critics of McCarthy, from the time of the senator's Wheeling, West Virginia speech in February 1950 to his censure by the Senate four years later. Joe Alsop was likewise the earliest and most effective press defender of the China Hands, including Service and Davies, when their loyalty and integrity were impugned. The identification of Joe, of all people, as a major instigator of the "nightmare" of the China Hands he so vehemently defended is historically bizarre and finds no support in the record.

Edwin M. Yoder, Jr.
Alexandria, VA

Editor's note: Due to a typesetting error, lines were omitted from David Halberstam's original letter, leading to the confusion Edwin Yoder notes above. Halberstam wrote that Alsop's series, "Why We Lost China," was the columnist's way of "getting even with old political foes from China, and [was] essentially a simplistic recreation of the Claire Chenault-Chiang line. They even made reference to Whittaker Chambers's Pumpkin Papers...." Halberstam's letter did not state that the series was itself a recreation of the Pumpkin Papers. We apologize to both Halberstam and Yoder for the mistake.

S&Ls, Past and Present

Amy Waldman's jewel of an analysis of the S&L debacle ("Move Over, Charles Keating," May) should be required reading in all political science classes. Her account captures the essence of interest-driven politics, when one special interest so successfully entwines itself with the vision of a sentimentalized America that no countervailing force can represent the long-term interest of the country.

Waldman appears to have let a couple of pivotal events in the scandal get out of sequence. Interest rates on jumbo CDs ($100,000 or more) were deregulated in May 1973, several years before the limit of deposit insurance was raised from $40,000 to $100,000. The order of events is significant. I find it difficult to believe that nobody on the banking committee staffs realized that the decision would, for the first time in a quarter century, allow members of this country's large upper-middle class to park their cash in a riskless non-governmental investment that also paid true market rates of interest.

The 1989 Financial Institutions Reform, Recovery, and Enforcement Act did more than symbolically mark the end of an era of hand-wringing by bank regulators. By leaving interest rates free but putting an iron collar around thrifts' lending practices, the law was an admission that the government's banking policies of the last 30 years were a mistake. Virtually the entire Congress conceded guilt by racing at breakneck speed in the opposite direction.

The law had a devastating influence on financial markets when it

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indiscriminately ordered S&Ls to dump certain types of speculative investments by a specific date. Among these were "junk bonds" issued by such fly-by-night operators as Safeway and Kroger, which had to be sold at about half their current price. Today, as in the sixties and seventies, the S&Ls are again borrowing short-term to finance long-term lending that is largely confined to fixed-rate residential mortgages. Waldman should find the thrift industry fertile ground for another classic story in 20 years, maybe sooner.
Burton J. Mitchell
Torrance, CA

Let The Rivers Run

Gregg Easterbrook's thoughtful and (to a lifelong tree-hugger like me) challenging critique of nineties environmentalism ("They Stopped the Sky from Falling," May) unfortunately founders on its opening example.

As Fred Powledge makes clear in the second half of *Water: The Nature, Use and Future of Our Most Precious and Abused Resource*, hydropower is far from a pollution- and guilt-free energy source. Turning fast-running wild rivers into reservoirs does not simply exchange a healthy river ecosystem for a healthy lake ecosystem; it exchanges a healthy river ecosystem for the kind of dead, still, silt-choked reservoirs common in the West.

Nor does energy-phobia even make the long list of valid human and ecological concerns cited by the environmentalists opposed to the James Bay projects. I have too much respect for Easterbrook as a reporter to believe he somehow overlooked the mercury poisoning caused by dam water submerging mineral-laden rocks that have rested above the flood line since the last glacier retreated; perhaps he dismisses the illnesses and deaths among James Bay natives as "natural" consequences of mankind's compelling need for "clean" energy.

Yes, the environmentalists have got to get their heads out of the clouds and start dealing with reality, including the delicate balance between acknowledging our past gains while still calling attention to what remains to be done. Unfortunately, dealing with reality also means wasting time correcting the distortions in articles like Easterbrook's.
Lisa Aug
Frankfort, KY

Gregg Easterbrook replies: The omissions Aug refers to are all in my book, *A Moment on the Earth*, from which this article was excerpted.

Good Riddance, Penny

While the media tends to treat guys like former Congressman Tim Penny ("Penny's Thoughts," by Matthew Miller, May) as saintly heroes for resigning in self-righteous protest against Congress, I don't share their sentiments. Taking potshots at his former colleagues doesn't qualify him for any medals either.

If he can't stand the heat he ought to leave quietly, not write a book that implies he is a "finer" human being than the rest of his colleagues. The fact is, Penny was part of the process for over 10 years and if it took him that long to find out that politics is a tough business and that most people are driven by self-interest, he must be pretty dumb. If he really knows how to reform the process he owes it to his constituency and the American people to stay and fight for what he believes in. The truth is he just quit because life isn't the way he wants it to be and we are well rid of him. His action was that of a wimp, not a saint.

Finally, when Miller refers to the Senate Republicans who tried to shave the cost of living allowances for social security as "courageous," he is talking nonsense. How much courage does it take to squeeze money out of poor widows and sick old people? If they really had courage they would take on the "military industrial complex."
Sanford Thier
Palos Verdes Estates, CA

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Tilting at Windmills

We hear too much about the Christian right. What about the Christian left? That's where I belong. Wouldn't Jesus want the poor to be better off? Wouldn't he be appalled that wealth is the measure of success? Wouldn't Jesus favor medical care for all? Of course he would. The trouble is that too many liberals are embarrassed by religion instead of seeing that it offers powerful support for their greatest causes....

Nearly one-fourth of the Republican newcomers to the House and Senate are worth at least $1 million, according to *The Washington Post*. I guess these fellows are assuming that somehow that camel is going to make it through the eye of the needle....

Speaking of the affluent, do the rich really need all those tax cuts the Republicans plan to give them? Consider this report from *The New York Times*: "While the underlying economy in the metropolitan area remains tepid, there are plenty of signs of extra spending money among the upper crust in the crowded aisles at Barneys, hefty sales of luxury cars and expensive four-wheel drive vehicles at local dealers, and the tighter summer rental market in some trendy beach communities."...

Rhozier "Roach" Brown, a $31,275-a-year aide to D.C. Mayor Marion Barry, has quite a history. In 1965, he was convicted of murdering a man he was attempting to rob. He was paroled. But in 1987 he pleaded guilty to cocaine distribution and embezzling more than $45,000 from the Hillcrest Children's Center, where his girlfriend worked. His sentence was 10 years on the dope charge plus seven years for violating his parole—plus restitution of the $45,000. Then for some reason Roach was transferred to the custody of the city in 1993 and mysteriously released with eleven years remaining on his sentence. In February of this year he was hired as "logistics assistant" in the D.C. Office of Emergency Preparedness and assigned to the Mayor's Office as a staff assistant. Had he repaid the money he had stolen from the children's center, formerly known as the Washington City Orphan Asylum? No. "Somehow I just forgot about it," he explained. "It just fell through the cracks."...

A few weeks ago, Roach's employer, Mayor Barry, anxious to divert attention from his junket to Africa, promised that every pothole would be filled within 72 hours of being reported. For a few days, the Mayor's public relations people proudly trumpeted the actions being taken to carry out the pledge. Then silence.

A curious journalist—those words should be redundant but alas I have to tell you they are not—Brian Blomquist of *The Washington Times* began seeking information. Here is what transpired, as told by Blomquist in the Friday, June 16 edition of the *Times*:

"Two weeks ago, Public Works Department spokeswoman Linda Grant said pothole figures were unavailable because the information was in the process of being put on computer.

"Last week, city spokesman Warren Graves said computer problems prevented him from getting the latest pothole information.

"Yesterday, Ms. Grant said the information was not available because the department was still retrieving the data from computers. She said she would have up-to-date figures today, a furlough day for D.C. workers."

Blomquist's suspicion that these answers were less than candid was heightened when two workers on the pothole program said that they had been entering the information into the computer all along, and that there had been no computer problems....

Most of us dread the ordeal of buying a new car. Once they get you into those tiny cubicles and the salesman starts working you over, you'll do almost anything to escape. The worst example I've heard concerns George Grubbs Nissan in Texas where one salesman trapped a deaf mute customer for four hours by taking his keys and hiding them. "Let me go home," the customer begged in one note to the salesman. "I'm hungry."...

That story came from an article by James Bennet of *The New York Times*, who had earlier revealed that the auto company executives don't know what their customers

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go through in those cubicles because the executives never have to buy a car....

A few weeks ago, James Bennet, for a totally different story, attended the second annual Gunstock, a rally sponsored by the Gun Owners of Macomb County (Michigan) and the Macomb Coalition of Republicans, where he observed a Doberman Pinscher named Brutus wearing a collar made from a bandoleer, and a bumper sticker that asked, "Where is Lee Harvey Oswald when his country needs him?"...

A reporter doing an article on leaking to the press recently asked me why I thought there were so many leaks today. I told her that my best guess is that it's because the press is now recognized as an essential element in each official's constituency. Whether an official is appointed or elected, there have always been constituent groups that he recognizes as being part of his power base. For the bureaucrat this may be the chairman and ranking members of the congressional committee overseeing his department, the examiner at the OMB who approves his budget, a godfather or two at the White House. For the congressman, it might be the Speaker, the chairman of his committee, and the heads of the interest groups that have the greatest influence on votes in his District or the most funds to contribute to his campaign.

But more and more, the official sees the press as equally important because it can preserve, protect, and enhance his reputation among the other elements of his constituency. I think that's why people like Colin Powell, James Baker, and Dick Darman took the art of leaking to new heights in the Reagan-Bush era. Powell, for instance, feared his career might not survive a disaster with Desert Storm so he leaked his reservations to Bob Woodward who published them in *The Commanders*. It turned out to be unnecessary when the war ended in triumph. But if it hadn't, Powell's behind would have been covered.

I suspect the reason there is so much leaking in the Clinton Administration, including the White House, is that from its earliest days the Administration has been in peril. In case it does sink, the Clintonites don't want their careers to go down with the ship, so they have been busy trying to make sure that their friends in the press will protect their reputations, if not the president's....

The Republicans have been beating up on Bill Clinton for his zigs and zags on Bosnia. But the fact is, there's a lot more zig and zag in the GOP. *The Washington Post*'s Thomas B. Edsall recently pointed out that Republican presidential candidates Richard Lugar, Pat Buchanan, Phil Gramm, Bob Dole, Pete Wilson, Arlen Specter, and Lamar Alexander all have different positions on Bosnia....

Recently, on the David Brinkley show, Secretary of the Treasury Robert Rubin said that in the last 15 years the income of the upper 40 percent had increased while that of the bottom 60 percent had not. By contrast, he noted that in the preceding three decades, all income groups had gained. Brinkley said, "That isn't the fact I've heard," and without explanation turned to another matter. Why didn't he explain? For more on this kind of laziness in TV news shows, see our *MacNeil/Lehrer* story on page 10....

In our June issue, Daniel Franklin urged the Democrats to immediately join the Republicans in passing the line-item veto. It was only a matter of time, he pointed out, before the congressional Republicans realized that President Clinton could use the line-item veto to kill their pet projects. Sure enough, on June 7 came this headline in *The Washington Times*: "GOP Puts Line-Item Veto on Slow Track."

But maybe all is not lost. During their New Hampshire love-fest on June 11, Clinton got Newt Gingrich to pledge passage of the veto. The President should hold the Speaker's feet to the fire on this one....

The stupidity of the Republicans in eliminating agencies that could help cut the overall government budget continues. Not only do they seem intent on abolishing the Office of Technology Assessment and reducing the budget of the General Accounting Office, they are now moving toward eliminating the agency that compares competing medical treatments to see which works best and at the least cost. It's called the Agency for Health Care Policy and Research and it costs $162 million per year. I agree with

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the health executive who told *The Washington Post*, "To defund a relatively modest effort like that at a time when the questions they need to answer are becoming ever more critical doesn't make a lot of sense."...

"As Congress begins putting the budget squeeze on everything," writes Julia Malone of the Cox News Service, do they "part with the benefits and privileges they have long enjoyed at public expense?"

Her answer: So far, the only reform is that they have removed the sign that identified their free parking spaces at National Airport as reserved for congressmen. It now says "Reserved Parking."...

One of the great enduring principles of bureaucratic culture, whether corporate or governmental, is that the fellows at headquarters always win. The latest illustration is that in the Clinton Administration's downsizing, 1,128 federal workers in Norfolk, Virginia, lost their jobs, as did 922 in Portsmouth, New Hampshire. But in Washington, which has by far the most government employees of any city, only 546 feds have been laid off....

Not long ago, James Q. Wilson made an observation about welfare that I hope everyone will remember during the current debate about welfare's future. The key, he says, is the character of the children, not the work done by the mother. If the mother can resist the negative forces of the culture of poverty enough to "keep the kids in school and out of crime, give her a welfare check, regardless of whether she works or not."...

You will recall that the original purpose of the tax deduction for home loans was to encourage home ownership, especially for people who would otherwise not be able to afford it. So what are Home Equity Loans used for and who uses them? These loans are used not to buy homes, but to purchase cars and pay for vacations. And, according to real estate columnist Kenneth R. Harney, the people who get the loans are the nation's "credit elite."

Taylor Branch talked about home equity loans at our recent conference, "Where Can Liberals and Conservatives Agree?" What he said, in case you missed it on C-Span, is worth pondering:

"We have a society that desperately needs to save. We have a society that desperately needs self-discipline. And yet the bankers—the very people who are supposed to have embodied these values—are urging us to hock what savings we have and take out a consumer loan and then charge part of it to the government."...

Have you heard the word iatrogenic? It means "physician-induced illness or injury"—in other words, what can go wrong when you entrust yourself to the medical community. You will recall such recent cases as Betsy Lehman, the *Boston Globe* columnist who died after being given four times the prescribed chemotherapy dose at Boston's Dana Farber Cancer Institute and the surgeon in Tampa who amputated the wrong leg of a diabetic patient. These are, alas, not isolated cases. Soon after the *Globe* columnist died, the New England Medical Center admitted that two of its patients had died after receiving three times the recommended chemotherapy dose. A doctor in New York mistook a woman's dialysis catheter for a feeding tube and pumped two quarts of feeding solution into it. She died, as did another patient at that Tampa hospital when a ventilator was accidentally unplugged. Still alive but somewhat the worse for wear are a Grand Rapids woman whose mastectomy resulted in the removal of the wrong breast and a North Carolina patient who developed a massive infection after his head was left open for 25 minutes while the surgeon went out to lunch.

180,000 people die each year and another half million are injured through medical malpractice, according to a Harvard School of Public Health study that I found out about through Joyce Price of *The Washington Times*. One of the great black comedies, Paddy Chayevsky's *Hospital*, captures the madness of it all in scenes where a doctor and nurse are having at it in one bed while a patient expires in the next and a clerk badgers another dying patient for billing information....

Newt Gingrich has 26 staff members in his Speaker's office and another 22 in his congressional office. In case you've heard that government employees are underpaid, four make $108,234 each, a fifth $115,000, and six get a whopping $122,932....

Having from time to time been rescued from the dumps by the kind words and good humor of a friendly waiter or waitress, I was enchanted by Charlotte Allen's article about waitressing that appeared recently in *The Washington Post Magazine*. Allen isn't talking about the haughty types who condescend to or fawn on you depending on whether they think you can afford a hefty tip. Nor is she describing the aggressively cheerful "My-name-is-Jason" type that one encounters in the tonier chains—she means the real people who actually enjoy chatting with you and make your day better whenever they do....

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The Cuban missile crisis brought out the best and the worst in John Kennedy. He was at his best in skillfully negotiating to win his objective—the removal of Soviet missiles from Cuba—without causing nuclear war and without invading or even bombing Cuba as many of his hawkish advisors urged. He was at his worst in concealing a crucial inducement he made to Nikita Khrushchev through his brother Robert and Anatoly Dobrynin, Soviet Ambassador to the United States. That offer was to take the very reasonable step of removing our missiles from Turkey, which of course posed the same kind of threat to the Russians that theirs in Cuba did to us.

In 1972, *The Washington Monthly* went out on a limb to say that such an offer had been made and that it was important. We remained almost alone on that limb for 15 years until the offer became widely known through a conference of Soviet and American officials who had participated in the crisis negotiations. Now, more information about those negotiations is made available in Dobrynin's forthcoming memoir, *In Confidence*, scheduled to be published in September.

Dobrynin confirms not only that the offer was made but that it was crucial to Khrushchev's decision to withdraw the Soviet missiles. Unfortunately, the secrecy that the Kennedy brothers had insisted on was to cost Khrushchev his job. Dobrynin explains:

"Khrushchev's failure to insist on a public pledge by Kennedy cost him dearly. Kennedy was proclaimed the big winner in the crisis because no one knew about the secret deal. Khrushchev had been humiliated into withdrawing his missiles from Cuba with no obvious gain."

The secrecy may have been even more costly for the Americans. Not only did the Soviets' humiliation cost Khrushchev his job and energize their participation in the arms race that ensued, but it led future American leaders to think that the secret of success was to be tough, where in fact it had been to be reasonable.

Why did the Kennedys insist on secrecy? Here's Dobrynin's explanation:

"Very privately, Robert Kennedy added that someday—who knew?—he might run for president and his prospects could be damaged if the secret deal about the missiles in Turkey were to come out."

My own view is that the secrecy was motivated by John Kennedy's fear that right-wing Republicans would use the Turkish concession against him in 1964. I also suspect that somewhere deep in his psyche he feared what his famously macho father and older brother would have said about the concession. He was as reasonable a man as I have ever known. But he knew that the two Joes would have scorned any appearance of softness....

Wall Streeters who are ardently supporting Republican attempts to cut the capital gains tax might consider what happened the last times such cuts were made. The 1978 reduction was followed within one month by a 4.9 percent drop in the Dow, the 1981 cut by a 12.7 percent drop....

The Federal Health Care Financing Administration conducted an evaluation of that Dana Farber Cancer Institute that seems to have such difficulty keeping its patients alive. Eight of 14 patient medication records reviewed by the federal investigation revealed "errors in nursing transcription of orders and lack of written evidence that medications were administered in accordance with physician orders and/or established protocols." And according to Lawrence K. Altman of *The New York Times*, "Interviews with nurses found that they were often poorly informed about treatment plans for individual patients, in part because such plans were not included in patient records."...

The Vietnam War is often cited as the time America lost confidence in its power. I think the beginning

Roman Genn

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of this loss of assurance happened earlier—in Korea. The Korean War was the first time we didn't win. It had two obvious impacts on future military strategy. Many decisions in Vietnam, such as not bombing near the Chinese border, were influenced by our desire to avoid drawing in the Chinese as we had by getting too close to the Yalu River in Korea. The other was the decision not to pursue Saddam Hussein to Baghdad. Practically everyone who remembered the Korean War was fearful of overextending our advance again in Iraq. But most of all I think Korea contributed to a grim mindset that the struggle against Communism would be a long and hard one in which the best we could hope for was not victory but the draw of containment. The result was that most of us were astonished by the collapse of Communism that began six years ago....

If you're aware of the recent outbreak of the ebola virus, and most especially if you read *Hot Zone* by Richard Preston, you'll understand why I thought a *Washington Post* headline, "Fort Detrick Sewer Leak Raises Questions," seemed restrained to say the least, not to mention the unalarming placement of the story on page B4.

Fort Detrick, for those who don't know what I'm talking about, is where government laboratories study such deadly diseases as ebola, marburg, and anthrax. The sewer network that leaked was laid 45 years ago. The comfort the authorities offered *Post* reporters was twofold: "The leak was at the rate of about one teaspoon per hour" and "In the entire history of Fort Detrick there have been four deaths and they were the fault of individuals doing something stupid." So suppose just one more stupid action results in the escape of a teaspoon or two of ebola or anthrax? Isn't that enough to wipe out a small city?...

Incompetence of law enforcement personnel is a not insignificant factor in the crime problem. The percentage of criminals who are convicted is tiny compared to the number of crimes committed. And even when the police get out of their air-conditioned squad cars long enough to actually make an arrest, prosecutors and judges often fail to do their jobs. Sometimes overworked or lazy prosecutors fail to properly prepare their cases. Sometimes a judge will do something stupid. A recent example was provided by D.C. Superior Court Judge Frederick Dorsey, who released a defendant charged with first-degree murder on a $5,000 bond. Many people don't realize that the cash required to post such a bond is only $500. What on earth was Dorsey thinking? For a first-degree murder! I'm sure you know what the accused did. He took off, of course....

It was hard to believe the headline in *The Washington Post* of June 14: "House Sustains B-2 Funds, Blocks Aid to Destroy Soviet Nuclear Arms." We don't need the B-2; we do need to get rid of Russia's nuclear warheads. This is further evidence that the Republicans don't know what they are doing. But I should note that Budget Committee Chairman John Kasich broke with the majority to oppose the B-2. Too bad more of his GOP colleagues don't aspire to such consistency in their frugality....

Much of the money wasted by government is wasted by the military. Not just the weapons we frequently write about that aren't needed—what about all of those planes that fly big shots around at many times the cost of commercial air travel and those helicopters that ferry brass between the Pentagon and Andrews Air Force Base when a cab could do the job for twenty bucks or so? And then there's the recent revelation by the Commission on Roles and Missions of the Armed Forces. The military employs 12,500 doctors but needs only 6,000—"even in wartime."...

Important new evidence to support my effort to save the young from becoming lawyers comes from an interview *The New York Times* did with Laura Putney, the maker of a documentary about Harvard Law School called "Still Life." Putney had this to say about her fellow students: "The majority are not happy because they don't want to be lawyers.... I think so many of us ended up here because we were looking for another hoop to jump through." It was something, she said, they were "supposed to do," a logical next step for high achievers.

Unfortunately, says Putney, "They're all coming through this process saying they will become lawyers.... That's depressing."

Indeed, the *Times* notes, 90 percent will enter the legal profession, including Ms. Putney. "I'm $90,000 in debt and I needed a secure job," she said.

But consider that if you don't go to law school, you won't pile up that kind of debt. What else can you do instead of law school? Maybe you can start your own business, creating a product you're proud of and giving work to others that they enjoy doing. That's what I've done for 27 years, and I've had a wonderful time in the process. Or you can, as I'm always recommending, become a teacher. Here, too, I have a new ally, John Grisham. In his new book, *The Rainmaker*, the lawyer-hero says,

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"I'm sickened and saddened by what I've become" and recalls his best friend at college who is now teaching ninth-grade history and social studies. His friend's wife is "pregnant and teaching kindergarten—they are the happiest people I know. Their joint income is about fifty thousand a year."

Grisham's first best seller, *The Firm*, is must reading if you're thinking about the law. Its account of how bright young lawyers are seduced into unworthy work by high salaries is not what it first appears to be, just the story of one crooked firm in Memphis. It actually captures the essence of what goes on in many big-time law firms. You get used to that big money. So does your wife. Soon, so do your children. "Daddy can I have a Beamer for graduation?" And then you get used to accepting the often boring work of little or no positive social value that you have to do to earn it. The trap has sprung....

There are a number of reasons why *The Washington Post* didn't support the Clintons' health reform plan. One was that the owners didn't look forward to paying the higher costs the bill would have imposed on them. But another is that, when the *Post*'s editorial board asked a White House team whether someone from Washington could use Johns Hopkins (in Baltimore) under the plan, Ira Magaziner's minions started arguing among themselves as to what the correct answer was....

Did you happen to see that article in *The New York Times* about Dr. Mark George's study of happiness and the human brain? It seems that we are happiest when we aren't trying to think about the future.

"When [Dr. George's] 11 subjects felt happy, the characteristic pattern was a decrease of activity in the regions of the cerebral cortex that are committed to forethought and planning."

This is certainly true of me. I'm happiest when I'm sitting like a vegetable in the Piazza San Marco sipping espresso, taking in all the beauty of the buildings, listening to the music, watching the pigeons and the passers-by. Let a thought about the future intrude—such as how are we going to make *The Washington Monthly* consistently profitable instead of consistently just barely breaking even—and I'm in trouble.

The only exception is when I'm planning a trip to another Venice. Then I'm happy, too. Fortunately this holds true even when the prospects for actually taking the trip are slim—which, because of those missing profits, they so often are....

—Charles Peters

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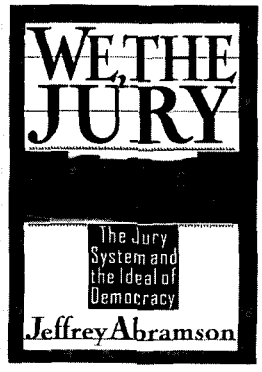

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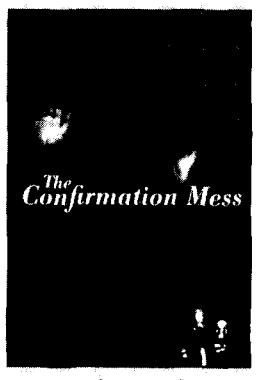

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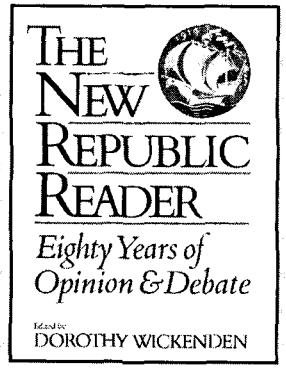

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MacNeil Error

Robin and Jim can leave you confused when they fail to ask the clarifying questions

BY GLENN HODGES

People watch *The MacNeil/Lehrer NewsHour* because it's Serious Television News. Not bound to 22 minutes of commercial-driven images like the networks, the PBS show penetrates issues with in-depth reports and debates. It needn't entertain—it *educates*.

At least that's the line.

In reality, the *NewsHour* suffers from a common television news malady: It often lets opposing parties face off and volley dubious "facts" and assertions—without being challenged by the moderators. There's no doubt that Robin MacNeil and Jim Lehrer are intelligent and charming. But because they face different and complex issues every day, they don't always have the knowledge, or the confidence, to ask the clarifying questions. And it's the viewer who pays the price.

This shortcoming is most visible when the show takes on complicated subjects, as it did on May 10 when the news of the day was Medicare reform. Senate Republicans had just announced their plan to cut $250 billion in the future growth of Medicare, and the *NewsHour* invited two senators to debate the issue.

First, the *NewsHour*'s background report filled in some facts: Beneficiaries pay about $2,800 annually for their medical care, double what it cost them only seven years ago. People are living longer and taking advantage of an increasing number of expensive medical procedures. Medicare will cost the federal government $176 billion this year, and twice as much by 2002, leaving Medicare's trust fund broke.

With Medicare costs exploding—spending on the program quadrupled between 1980 and 1994—the need to reform the program is obvious. But is the Republican plan a smart one? What are its flaws? What would the Democrats do? *MacNeil/Lehrer*'s debate that evening sought answers from Senators Chris Dodd and Judd Gregg. But few answers came, as moderator Jim Lehrer allowed the senators to release a torrent of errors, inconsistencies, and half-truths.

The following annotation of the debate suggests some of the questions that could have been asked and points that could have been made for the purpose of clarification. Of course, we wouldn't expect them all to be raised in a single show, but the *NewsHour* certainly should have hit more than it did.

Glenn Hodges is an intern at The Washington Monthly.

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MacNeil/Lehrer NewsHour
May 10, 1995

MR. LEHRER: Now, to our debate with two members of the Senate Budget Committee: Christopher Dodd, Democrat of Connecticut, and Judd Gregg, Republican of New Hampshire, who headed the committee's working group on entitlement reform earlier this year. They both join us from Capitol Hill. Senator Dodd, what do you think of the Domenici Republican approach to Medicare?

SEN. CHRISTOPHER DODD (D-Connecticut): Well, I think it goes far beyond what needs to be done. Obviously, you've got to look at the reform measures we tried last year. You may recall the health care effort that failed, but there, there was some $55 billion in cuts in Medicare the president proposed, in fact, succeeded in getting. We had $124 billion as part of the health care package which did not make it. That has extended the solvency of the fund an additional three years, and clearly more needs to be done. No one questions whether or not we need to reform it, but it needs to be reformed, in our view, in the context of health care overall. It isn't just a Medicare problem. It's a Medicare--it's a Medicaid problem. It's access. It's rising costs. The inflation factor is double-digit. It's higher than the Consumer Price Index, and it seems to us that before you just decide you're going to take some significant cuts in the growth of Medicare, which will be tantamount to a $900 increase to retirees--that is out of pocket expenses that they can hardly afford--we ought to be looking at the totality. That's what the President has asked for. And, of course, last year, every effort we made in this area, we were told there was no crisis, nothing needed to be done, and now we're being told a few weeks later that something has to be done. I would add that I think there is a legitimate suspicion that these cuts in Medicare appear to be, at least from a House perspective, less so in the Senate bill of-

Still smarting from the Republicans' obstruction of health care reform in 1994, Democrats are eager to punch back. Defending Medicare—and its constituency of over 34 million senior citizens—against the ruthless Republicans is the perfect opportunity. In that vein, Dodd asserts that the Republican plan goes way too far. Next he argues that it doesn't go far enough. Lehrer doesn't point out the inconsistency.

Dodd must be confused. There have been no Medicare cuts under the Clinton Administration.

What extended the fund's solvency was Clinton's 1993 deficit reduction bill, which expanded the 2.9 percent Medicare payroll tax to cover all earned income, and earmarked an increase in income taxes on Social Security benefits for the Medicare trust fund.

Dodd has a point. It would be better to reform Medicare along with the overall health care system since their costs are so closely linked. Unrestrained Medicare payments are a prime reason health care costs began to spiral in the late sixties and early seventies. The *Monthly* has argued for years that a well-designed single-payer system like Canada's would solve many of our most pressing health care problems, including those of Medicare. Lehrer should have asked Dodd what he meant by saying it should be reformed "in the context of health care overall." Lehrer should have also pointed out that because overall reform is unlikely in the near future, we still need to do whatever can be done about Medicare now. In the next two years Medicare costs will increase by more than 20 percent.

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fered by Senator Domenici, that these are going to be used to pay for a significant tax cut, the benefits of which by and large will go to upper-income taxpayers in the country, not to working families. And that seems to be a very legitimate concern as well. So reform is on the table, ought to be, we need to look at it in terms of how we can solve it, but this goes very, very deep, and a lot of people, hard-working people who've spent all of their lives building this country, are going to be asked to pay a very dear price, indeed, without looking at the totality of the problem.

MR. LEHRER: Do you agree with that, Senator Gregg, that people are going to have to pay a very deep price for this?

SEN. JUDD GREGG, (R-New Hampshire): No. And, in fact, I think the Senator's made a number of statements which are inaccurate. To begin with, it's the trustees of the trust fund--four of whom happen to be administration officials, including Donna Shalala--who have told us if we don't do something about this the trust fund goes insolvent in the year 2002. And that means there is no insurance program for senior citizens, so the matter has to be addressed. In addition, the trustees have set the number. They've said that the trust fund is out of whack by the amount of $262 billion over a five-year period. Now, we haven't attempted to get to that large a number, quite honestly, because we thought it was too big a number to adjust. Our adjustment is in the range of $160 billion over five years. And we've suggested that the way you get to that isn't by hitting the beneficiaries at all. What we've suggested is that we give the beneficiaries some choices that they don't presently have. We've suggested that the beneficiaries have a program much like members of Congress have where they can go out in the market and choose other programs than fee-for-service. As your introductory comments noted, 90 percent of the senior citizens are using fee-for-service. That's because they grew up with it in the fifties and the sixties. But that's the most expensive form of health care. What we've suggested is to create an economic incentive to allow seniors to go out and

Not so. The "trust fund" is a convenient way of describing how much money the government plans to spend on Medicare, but the program is integrated into the federal budget—if the trust fund runs out of money, the shortfall is paid from the general fund. This may increase the deficit, but it won't spell the end of Medicare. Raising the specter of "no insurance program for senior citizens" is a scare tactic, designed to herd public opinion into the Republicans' corral.

Is Gregg forgetting that the Republican plan calls for increasing beneficiaries' share of the premium for Medicare Part B (the part of the program that covers doctor visits and other non-hospital costs)? Seniors' share of the premium is currently 31 percent, and would revert to 25 percent by 1996 under present law. Senate Republicans are proposing an increase to around 35 percent, possibly higher for the wealthy.

Gregg's rhetoric of "choice" disguises a basic premise of the Republican plan: They hope to save money by nudging seniors towards Health Maintenance Organizations (HMOs), which reduce costs by *restricting* choice.

"Give 'em what Congress has got"—a line straight from Hillary Clinton's health care reform playbook. But Mrs. Clinton was pointing out that some 37 million Americans had no health care coverage, while members of Congress had the best coverage in the nation. Gregg's appropriation of this rhetoric falls flat. Most senior citizens will never have the options members of Congress have. As federal employees, congressmen choose from an array of top-notch health care plans. And as Capitol Hill royalty, they enjoy numerous medical perks unavailable to the general populace (like an on-site physician and access to the Walter Reed Army Medical Center). When members retire, they can keep their health plans as long as they want (paying the same premium as they would as employees), and when they hit 65, their still-subsidized plans can be used to supplement Medicare.

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choose other forms of services, such as HMOs or PPOs, fixed cost delivery services, and we've said if they want to stay with fee-for-service they can. Voluntarily, they can choose whichever program they want, but if they choose a fixed-cost program, and it's less than what fee-for-service costs, then we're going to allow them to keep a significant amount of what they save. Say the program they have today costs them $5,000, and be able to go out and go into an HMO that costs $4,500 with the same benefit structure, maybe even a better benefit structure because many HMOs stress wellness and preventive care, then they'll be able to keep 75 percent of the $500 difference. And that'll create: one, an economic incentive for seniors to look for other and better types of health care; two, it will create in the marketplace a variety of different health care programs coming out to seek seniors' business; and three, for the federal government, what it gives us is a fixed rate of increase. And we're not talking about cutting Medicare at all. And I think that's very important to note here. We're talking about taking a rate of growth in Medicare which is now 10 percent, three times the rate of inflation in the private sector, 10 times the rate of health care inflation in the private sector, and reducing that rate of growth down to 7 percent. So we're talking about a dramatic increase in the amount that's spent on Medicare

It's not clear what Gregg is talking about here. His office claims he was referring to employers' health care costs, which actually decreased 1.1 percent in 1994, in large part due to employers aggressively seeking competitively priced managed care plans. However, that is not the only measure of health care inflation in the private sector. The medical component of the Consumer Price Index, which measures individuals' expenditures on health insurance premiums and out-of-pocket medical expenses (but excludes employer-paid health insurance premiums and government-paid health care like Medicare and Medicaid), increased 4.8 percent in 1994.

We learned in the background report that Medicare beneficiaries pay an average of $2,800 a year for deductibles, co-payments, and supplemental insurance. Gregg's hypothetical figure is almost twice that. If Gregg is talking about what it costs the *program*, he should not refer to what it costs "them," the beneficiaries.

HMOs won't necessarily save money for Medicare. (Ten percent of Medicare beneficiaries are already in managed care, and the government is not saving a dime.) In fact, the hybrid system with both HMOs and fee-for-service that Gregg favors could be a budget buster. Here's why:

Republicans propose giving beneficiaries vouchers in the amount of the average per capita Medicare cost (Gregg implies here that the vouchers would be based on each recipient's actual cost, but that's not what he meant, his office says), and allowing them to purchase their own health care plan and pocket 75 percent of their savings. There's a huge problem with this: Relatively healthy people will easily find cheaper plans and turn a nice profit, while many sicker people will be unable to find plans for the amount of the voucher. They'll remain in fee-for-service. With the government spending far more on the healthier people and just as much on the sicker ones, Medicare costs would soar. Remember, 70 percent of all Medicare funds are spent on the sickest 10 percent of recipients. Without controlling costs among this group, reform efforts will fail.

Currently, when HMOs take on patients enrolled in Medicare, they receive a flat fee—95 percent of the average per capita Medicare cost. Naturally, HMOs prefer healthier patients, since they get the same money and pay less for care. Under current law, which requires HMOs to take all comers from Medicare, they use clever marketing schemes—and even crude tactics like keeping their office up a flight of stairs—to keep the sicker, more expensive patients away. The way the system works now, according to the Congressional Budget Office, Medicare spends more for people in HMOs than it would have spent on them in fee-for-service.

"HMOs can be as wasteful as anything else. It all depends on the framework in which they compete," explains Neil Howe, chief economist for the National Taxpayers' Union.

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here.

MR. LEHRER: And that can be done--according to your calculations and those of Senator Domenici and others--without hurting any of the people who are the beneficiaries?

SEN. GREGG: Well, there will be some adjustment for beneficiaries, but more importantly, the adjustments will be, we think, in a positive way and the beneficiaries will be given more choices. They'll be given the opportunity, like members of Congress are, to go out and take an HMO program and if the HMO program costs less, then they'll save money. Now, as we get into--as we transition into that, there's going to be a transition period. And what we suggested is that the savings up front that are needed in order to get on a glide path to making this Medicare system solvent here. And what you got to remember here is if we don't make it solvent, beneficiaries are really going to be hurt because they won't have a system at all to get on that glide path. We suggested some adjustments which impact provider groups, they impact doctors, they impact hospitals, and they impact some segments of the beneficiaries but the affluent ones primarily, because we do put in an affluence test on the Part B premium which we think is very reasonable--so that John and Mary Jones who are working 60 hours a week at the local restaurant to make ends meet don't end up subsidizing the 500 top retirees from IBM.

MR. LEHRER: Senator Dodd, what's wrong with that? What's wrong with giving the folks more choices and all the things Senator Gregg just outlined?

SEN. DODD: Well, it sounded wonderful, didn't it? But the fact of the matter is you have an awful lot of people that don't have those choices because in the fee-for-service plan, they don't want to take on someone. As you know, people are living longer today, and a lot of these people have not--don't work out financially in the fee-for-service area, so they don't have those choices at all, and so that makes it much more difficult. Secondly, you have organizations like the National

Not a bad question, but Gregg just rattled off a litany of untested assumptions and questionable claims. This would be a great place to say, "Wait a minute. Will Medicare really end if the trust fund goes dry?" or "Will HMOs in fact save the program money, given the history?" Even with the question Lehrer did choose, why not be more specific: "You just said beneficiaries won't be hit. What about the plan to increase their premiums?"

The problem here may be that Lehrer, as a television anchor, simply cannot know everything there is to know about everything that crosses his desk. Medicare reform is a contentious and complicated issue, and it's impossible to get up to speed on all the specifics in a few hours. Why not have a *NewsHour* reporter who has been covering Medicare moderate the discussion? True, MacNeil and Lehrer are the stars, but is public television about celebrity or education?

But he just said the way to savings "isn't by hitting the beneficiaries at all." Now he says there will be "some adjustment," which is chicken-speak for increasing their share of the Part B premium. It's not a bad idea. Why doesn't he come clean?

They say this now—and we hope they stick to it—but experience shows that Republicans don't cotton to means testing, or anything else that burdens the affluent. For instance, they plan to reverse the 1993 law which increased the portion of Social Security benefits subject to federal income tax from 50 to 85 percent for individuals earning more than $35,000 (couples, $44,000).

Ironically, that money is designated for the deflating Medicare trust fund; without it, the impending crisis will worsen.

Lehrer could pose a more probing or specific question than this. How about asking Dodd if he agrees that HMOs would save Medicare money? Or if Democrats support an affluence test?

Gregg has been arguing that HMOs will save money for Medicare. What is Dodd's position? From his comments here, it's impossible to tell.

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Association of Manufacturers, the American Hospital Association has said rather bluntly here that if you have these kind of very deep cuts--and they are--it may not be much if you're on the wage or salary of a congressman or senator--but if you're on a fixed income like the elderly are, this is a huge whack and that's one of the problems of getting some sense of reality of what this means to them. Those costs get shifted. Hospitals are not going to just absorb these costs. They're going to pass them on in higher health care costs to others. So working families out there pay more, or the premiums go up, and business is very worried about it, so it isn't just the elderly here who can pay the price but also other segments of the economy.

More doomsday rhetoric that doesn't match reality. With Social Security and pension cost of living adjustments, the incomes of many retirees are no more fixed than those of wage-earners. And the elderly are far and away the wealthiest segment of society.

MR. LEHRER: Senator Gregg, let's come back to a point that Senator Dodd raised earlier, that he has, he thinks that people have a legitimate suspicion--that was his word—legitimate suspicion--that what's really at work here is that Medicare will be reduced or that growth--the rate of growth of Medicare will be reduced in order to finance a tax cut that you Republicans, particularly in the House, are committed to.

Why does Lehrer keep letting this central point pass? You can't cut Medicare without considering how it will affect health care costs overall. In America's complicated health care morass, almost any systemic changes—whether it is encouraging managed care, providing vouchers, or even increasing co-payments—will affect the balance of health care delivery nationwide. In the past, Medicare has saved money by reducing its payments to hospitals. To recoup their losses, the hospitals have simply raised their prices for everyone else. Gregg needs to respond to this problem and it's Lehrer's job to see that he does.

SEN. GREGG: Well, number one, the Senate bill has no tax cut in it until you get to a balanced budget and until you've restored the actuarial soundness of the trust fund. And the number one goal here, remember, is to restore the actuarial trust—the soundness of the trust fund--which is linked to deficit reduction. I mean, the fact is--and it's only logical and this point was made by the trustees of the trust fund when they testified before us--that if you're able to bring a trust fund into balance, which is way out of balance right now, that in the process, you obviously positively impact the deficit issue, but there is no tax cut in our bill.

There is no transfer in our bill because the tax--to the extent there is a tax cut in our bill--it doesn't incur until after we've gotten to a balanced budget and until after it's been scored as a balanced budget...

This is the kind of question one wants Lehrer to ask—good and tough, calling attention to the fact that Gregg is fudging the facts. As this goes to press, Republican leaders of the House and Senate agreed to $245 billion in tax cuts would begin in time for the 1996 elections, but well before 2002, which is when the Republicans say their plan will bring a balanced budget.

Just minutes earlier, Gregg said that the trust fund is "out of whack" by $262 billion over five years. But he also said that the Republican balanced budget proposal seeks only a $160 billion "adjustment." Why don't the Republicans' numbers add up? Another question Lehrer didn't ask.

One reason he didn't might be that Medicare reform boils down to details—lots of them. The show's format demands the impossible of its moderators: be experts *and* generalists. If the *NewsHour* truly wants to perform a public service, it has to work harder to take guests to task for their errors, omissions, and fabrications. □

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The Media's Japan Problem

Why the American press won't face the facts about Japan

BY EAMONN FINGLETON

The "right-hand drive" story circulated quickly through the American editorial pages. The U.S. threat to impose nearly $6 billion in tariffs on Japanese luxury car exports unless the Japanese opened their markets was ill-advised, the editorials argued, because it was American car makers who were at fault. The arrogant Big Three automakers had consistently failed to make cars with steering wheels on the right side, badly hurting sales in Japan. United States Trade Representative Mickey Kantor, the argument went, was flirting with a trade war over a non-issue.

But American auto companies make plenty of high-quality right-hand drive cars in their European plants. Many foreign car buyers in Japan actually prefer the steering wheel on the American side. It's a status symbol. Yet all these cars, wherever the steering wheel configuration, have long sold poorly in Japan because most auto distributors are under the thumb of the Japanese automaking industry.

You'd never know that from the media. On even the simplest and most easily verifiable aspects of this essential international relationship, the American press can be utterly unreliable. As a result, U.S. efforts to break down Japanese trade barriers have been consistently undercut.

Although no major publication regularly read in America can claim a good record of reporting on Japan, *The Wall Street Journal* and *The Economist* deserve special recognition as sources of slanted misinformation. In 1989, for instance, commenting on Japan's extraordinarily small appetite for manufactured imports, *The Economist*'s editors went so far as to assert that "there is no evidence that protection is the cause of it." The *Journal*, meanwhile, has wantonly underplayed the importance of trade deficits. In 1994, one editorial stated: "The best solution for the [American] trade deficit would be to stop reporting it."

The shortcomings of these publications are all the more significant because American reporters turn to them as the experts in business journalism.

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Consequently, the mistakes of the *Journal* and *The Economist*—most of which serve to remove responsibility from Japan for the continuing U.S. trade deficit with that nation, now pegged at $66 billion—quickly become the conventional wisdom to be aped by other newspapers and magazines. And the American reading public, subjected to naive and superficial journalism, is left with virtually no sense of what a powerful challenge Japan's continuing economic expansionism presents to the West.

Perhaps the single most pernicious part of the conventional wisdom is the idea that Japan "shoots itself in the foot" by practicing protectionism. Wait long enough, the theory goes, and the Japanese will snap out of their foolish xenophobia and open their doors to American products. But Western economists have always known that a program of intelligent protectionism powerfully boosts a nation's savings rate, and helps it to weather recessions. While economics reporters persist in portraying high tariffs as anachronisms, East Asia's miracle economies have ridden tariffs to rapid and sustained growth.

The apologist's take on Japanese trade practices is bolstered by what we are led to believe is the Japanese economy's terrible "slump." Stories of hard times in Japan have been so persistent and so graphic in the nineties that most Americans are understandably convinced that a resurgent America really has turned the tables on a floundering Japan. Yet in virtually every way that an economy's external clout is measured, Japan has continued to improve its position at America's expense.

Don't believe it? Here are a few significant indicators of Japan's economic strength. Just for fun, why not keep track of how many you've seen in the American press:

- Measured at current exchange rates, the Japanese economy is more than 85 percent the size of the American economy—up from just 55 percent at the end of the eighties.
- Japan's per-capita income at current exchange rates is now the world's highest.
- Japan's net national savings totaled $819 billion in 1993—representing 56 percent of all new savings in the OECD group of advanced nations. By contrast, America's share was just 5 percent.
- Japan is now the world's biggest source of foreign aid. It is outspending the United States by as much as 20 to one in key East Asian countries.
- Japan's share of world exports continues to soar and, with just half the population of the United States, it now exports more manufactured goods.
- Japan's unemployment rate remains the lowest of any major industrial nation—and, while the Western press goes on about supposed layoffs in corporate Japan, Japan's total job base has increased a net 3.2 million since 1990.

Despite the facts, the American press has persisted in peddling the America-vanquishes-Japan story. And why not? It's the sort of chest-pounding, feel-good story American editors and readers love.

The problem is that it is a fiction with consequences. As Japan's Ministry of International Trade and Industry (MITI) well knows, Americans tend to be more patient with Japan's trade barriers at times when the Japanese are perceived to be in economic trouble. *The Wall Street Journal* made this point explicitly when it argued last May against Mickey Kantor's attempt to impose a sanction against Japanese autos. The Japanese economy, they wrote, would collapse under the strain.

Despite the consequences, though, false stories about Japan are practically a cottage industry. Take, for instance, an article a few months ago in *The Wall Street Journal* about the Quantum Corporation's supposed success in making disk drives. "American companies," the *Journal* enthused, "have wrested the burgeoning disk-drive industry away from the Japanese by speeding up innovation and product cycles, and right now, none is moving faster than Quantum Corp." This probably came as a surprise to the Japanese disk-drive maker Matsushita-Kotobuki. Why? Because Matsushita-Kotobuki manufactures most of Quantum's drives.

American observers wrongly assume that if a product bears an American brand name it is necessarily made in America. This same error is behind the well-told tale of Hewlett-Packard's triumph over the Japanese in computer printers. If you are to believe *BusinessWeek*, Hewlett-Packard has been "murdering" the

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Japanese in the laser printer market. But this death has no sting for the Japanese because their own Canon Corporation supplies the most sophisticated components in Hewlett-Packard's printers. So far ahead are the Japanese in this area that, even with the yen in the stratosphere, Hewlett-Packard continues to import from Canon.

Some America-is-winning myths are repeated so often they bring to mind Mark Twain's comment about the difference between a cat and a lie: A cat has only nine lives. Take, for instance, the widely publicized story last year that American electronics companies had snatched the lead in semiconductor manufacturing from the Japanese. The story was entirely a hoax, as anyone who checked the actual trade figures could see. The error arose because journalists misread a statistical report from the Dataquest organization which said that the American companies had passed the Japanese in "shipments" of semiconductors.

The shortcomings of *The Wall Street Journal* and *The Economist* are all the more significant because American reporters turn to them as the experts in business journalism.

Unbeknownst to the press, however, chips listed as shipped by American companies are not necessarily made by them. Far from it. In reality, a growing proportion of chips shipped under American companies' brand names are actually made in Japan; many of the rest are made in South Korea or Taiwan. But, of course, the story circulated and the misguided conclusion that America has Japan on the ropes had yet another confirmation.

If Japan has been doing so well, you might ask, why do the Japanese themselves seem to think otherwise? They, too, have been telling economic sob stories. The explanation is quite simple: Since reaching a low in April 1990, the yen's dollar value has nearly doubled. An exchange rate move of this size has put Japanese industry under enormous pressure. But it is healthy pressure. Not a single major Japanese manufacturing company has gone out of business in many years. Straining to cope with ever higher yen exchange rates, corporate Japan is like a fit young cyclist pedaling steadily uphill. Meanwhile, eased by a falling dollar, America is like a flabby retiree happily coasting downhill. At the end of the day, corporate Japan will be at the top of the mountain while corporate America will be lost in the foothills.

At the root of the West's difficulty in interpreting Japan is a free-trade-at-all-costs ideology. Again, the most conspicuous culprit is *The Wall Street Journal*. As Chalmers Johnson has pointed out, the *Journal* is a sort of American *Pravda* that visibly runs away from information that might cast doubt on its belief system. The *Journal*, for instance, was alone among the business press in not reviewing *Trading Places*, Clyde Prestowitz's devastating critique of the Reagan Administration's Japan policy. The *Journal* rarely prints letters or editorial page contributions from intellectual opponents, particularly well-informed ones who can go toe to toe with the editors on the facts. As James Fallows has pointed out, these editors champion the need for free debate —they just don't want it in their own pages.

There is another ideological blinder. In their hearts, many Western journalists are convinced that Japanese society is essentially inferior. *The New Republic* memorably exemplified this spirit a few years ago in an article on trade friction. In a novel proposal to strong-arm Japan into opening its markets, the magazine suggested that every Japanese citizen be given the right to immigrate freely to the United States. So many talented Japanese would flee to America's shores, the article reasoned, that Japan would soon be brought to its knees.

Clever, yes, but it overlooks the fact that the Japanese—surprise!—actually *like* their country and its culture. So much so, in fact, that they are famously unwilling to work for American employers, even in Japan. Top American investment banks in Tokyo, for instance, cannot hire capable staff even when they offer two or three times the salaries paid by Japanese firms.

Then again, underestimating Japan is nothing

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new in America. From the dawn of relations between the two countries, America has considered Japan to be idiosyncratic and backward. This assumption has never failed to help Japan. Baseless Western pessimism about the Japanese economy in the late thirties, for instance, helped quell American anxieties about the Imperial Army's intentions in China. In the early fifties, similar misconceptions helped Tokyo sidestep heavy war reparations in its peace treaty with the United States. Japan's total war reparations were held to just $1 billion, a tiny fraction of Germany's $80 billion.

Being underestimated worked nicely for Japan again in the mid-seventies, when the Western press painted Japan as the worst victim of the oil crisis. Always first with the bad news on the Japanese economy, *The Economist* reported that with Japanese employers supposedly cutting output by up to 55 percent, "conditions approaching anarchy" might break out in which militarists or communists could seize power. Washington did all it could to make sure Japan got as much as possible of the world's then desperately scarce oil supplies.

Needless to say, the Japanese economy did not collapse and, as in the early nineties, the crisis blew over with virtually no increase in unemployment. In fact, from the point of view of Japan's economic leaders, the crisis was a veritable godsend: Japanese corporations were already more energy-efficient than their American counterparts, and the oil crisis enabled Japan to vault to global leadership in many energy-intensive industries—most notably in automobiles.

To be fair, there are reasons the reporting from Japan is so poor. Japan is one of the most baffling and dispiriting environments a Western correspondent is ever likely to experience. And given the failure of Western employers to invest in educating their reporters in language and culture, most individual correspondents report from Japan as well as can be expected.

Still, the profound consequences of the press' failure cannot be overlooked. Before long, the Japanese economic machine will be light years ahead of the U.S. economy. And the American media—with their readership in tow—will be left shaking their heads in disbelief, wondering what happened. □

Who's Who

Remember how, during the 1992 presidential debates, **Bill Clinton** showed he listened better than **George Bush** by answering a question Bush misunderstood? A lot of political heads were nodding to themselves when **Newt Gingrich** did the same thing to Clinton in response to the very first question in New Hampshire....

The process of appointing independent counsels gets curiouser and curiouser. Selected to investigate the charges against HUD's **Henry Cisneros** is **David M. Barrett**, a lawyer who was known for his access to the top levels of HUD when the agency was run by Reagan appointee **Samuel Pierce** and was not exactly squeaky clean. Barrett was appointed by a panel on which four of the five judges had been appointed by Republican presidents. The panel is headed by—I know you've already guessed—**David B. Sentelle**, the same Republican judge who appointed Republican **Kenneth Starr** to investigate Whitewater. Starr, by the way, decided in mid-May not to rush his case against **Bruce Lindsey**....

Anthony Kennedy is the man to watch when you want to know which side is going to win the next 5-4 vote on the Supreme Court. He has been in the majority on important cases, according to *The Washington Post*'s **Joan Biskupic**, more than any other justice....

Despite entreaties to join the White House staff, or to move to the president's reelection campaign, State Department de facto chief of staff **Tom Donilon** will remain at Foggy Bottom. Donilon helped prepare Clinton for the 1992 presidential debates and is considered one of the best political minds in Clinton's orbit....

One big obstacle to **Colin Powell**'s emerging as the Republican candidate for president is that he is said to be a fierce proponent of gun control. But should the general run as an independent, his position will probably help him....

Maybe we aren't as racist as we sometimes fear we are. Three of the four most invited graduation speakers this year were black: **Marian Wright Edelman**, **Bill Cosby**, and **Henry Louis Gates, Jr**....

Clinton Administration officials have lamented the growing—some say alarming—gap between those who drive with confidence on the information superhighway and those who are afraid to venture from the driveway. Nowhere is this gap more apparent than in the West Wing of the White House, where Vice President **Al Gore** deftly works his Apple PowerBook Duo while **President Clin-**

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Panetta's mice … Clinton's computer … The movie Dole likes … and the novel he doesn't….

on, apparently in need of the kind of worker retraining he would like to offer to the rest of the country, continues to work with a pen and pad….

George Will is among the more spirited critics of the Clinton Administration proposal to put a tariff on Japanese luxury cars. **Mari Mareng Will**, who happens to be George Will's wife, is a registered lobbyist for the Japan Automobile Manufacturers Association, which, according to *The Washington Post*'s **Howard Kurtz**, paid her firm $198,721 last year….

Who are **Leon Panetta**'s mice? The aides who scamper around the White House doing the business of their boss. They include **Barry Toiv**, **John Angell**, and **Martha Foley**. If you want to deal with **Harold Ickes**, the person to see is aide **Janice Enright**….

Senator **Bob Kerrey**, who is heading up the Democrats' efforts to take back the Senate in 1996, is leaning heavily on Colorado governor **Roy Romer** to run for the seat being vacated by retiring Senator **Hank Brown**. But sources close to Romer say that he is unlikely to throw his Stetson into the ring….

Remember all that effort Interior Secretary **Bruce Babbitt** made to keep his press secretary **Kevin Sweeney** happy—spending $70,000 on a new office for Sweeney complete with private bath? Well, it was all for naught. Sweeney has left. He will be replaced, according to *The Washington Post*'s **Al Kamen**, with **Michael Gauldin**, who was Governor **Bill Clinton**'s press secretary for five years in Arkansas….

In his forthcoming memoir, **Anatoly Dobrynin**, who was the Soviet ambassador to Washington for almost three decades, reveals that the Soviets offered to finance **Hubert Humphrey**'s campaign against **Richard Nixon** in 1968. Humphrey declined the offer….

One of our editors says he first began to suspect that retiring AFL-CIO president **Lane Kirkland** might be losing touch with the working man when one night at a dinner party he heard his tablemates praise Kirkland for having the best wine cellar in Washington….

Ed Rollins, who was an advisor to **Bob Dole**'s campaign, has shot himself in the foot again. Speaking to a California dinner for **Willie Brown**, he is reported to have said, "If elected mayor of L.A., he could show those Hymie boys, [Rep. **Howard**] **Berman** and [Rep. **Henry**] **Waxman**, who were always trying to make Willie feel inferior for not being Jewish." You will not be astonished to learn that Rollins has since resigned from the Dole campaign, having been asked to do so by its manager, **Scott Reed**….

Speaking of **Dole** again, **Richard L. Berke** of *The New York Times* got a revealing quote from Dole's deputy campaign manager, **William B. Lacy**: "When you get down to a specific piece of legislation to try to analyze what he did or didn't do, that's inside baseball that the average primary voter really isn't going to focus on." Berke concluded from this and other interviews with Dole aides that "Mr. Dole's behavior is part of a calculation by the front-runner for the Republican presidential nomination: that it is more important for Mr. Dole to prove his conservative bona fides to next year's primary election voter than to demonstrate to Washington insiders how ably he can run the Senate."…

Dole has been severe in his criticism of Time Warner, a studio dominated by Democrats. Yet he seemed to say that *True Lies*, a film starring Republican **Arnold Schwarzenegger** and produced by a studio controlled by Republican pal **Rupert Murdoch**, was "family friendly," even though, as *The Wall Street Journal*'s **Phil Kuntz** points out, the film "includes a strip-tease scene widely criticized as degrading to women."…

But there is one Republican **Dole** seems willing to criticize on moral grounds. When a sexy passage from **Newt Gingrich**'s novel *1945* was read to him, Dole said, "It's troubling to me. Maybe it's not troubling to Newt Gingrich."…

—*Susan Threadgill*

Roman Genn

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Everyone's a Loser

How lottery ads entice the wrong people to gamble

BY JOSHUA WOLF SHENK

Tom had been playing the lottery for two years when God started whispering in his ear. At first, Tom (who asked that his last name be withheld) would spend just a few dollars a week. He had his regular numbers, and he'd play them when he thought of it.

But then, he says, on the days that he hadn't planned on playing, the word would come from Heaven: Your number is coming *tonight*. Fear would strike him like ice water on the neck: "I'd think, 'I'm not going to win it. I don't have the [money] on that number.'" So he'd rush out to play his regular number, and many more. Before long, he was spending $300 a week on tickets.

"It was 'A Dollar and a Dream'; 'Hey, You Never Know,'" he says, repeating the advertising slogans of the New York lottery. Tom pauses. "Those were good come-ons."

It's no accident that the voices inside Tom's head echoed lottery ads. They're extremely effective. And they're everywhere: on the radio and TV, in bus shelters and on billboards, even in mailings sent straight to homes. The message is simple: Play the lottery and get rich. Get rich, and all your problems will be solved. The New York lottery takes in more than $2 billion in sales each year, and it spends $30 million each year on advertising to keep the cash rolling in.

State lotteries target anyone who might cough up a dollar (or $10 or $20) for the chance to strike it rich. Conveniently silent on the odds, these ads send the message that hard work and patience is for suckers. In the process, the ads help wring billions of dollars from the most vulnerable "customers" possible—the poor and the addicted.

Criticism of state lotteries runs a wide gamut. Some say the state shouldn't even *allow* gambling, much less conduct it. Others argue that gambling should be left in private hands. Still others believe that the state should run lotteries for roughly the same reason many states run liquor stores: to keep the business controlled and clean, and to make money for the state.

Regardless of where you stand on these important questions, though, one thing should be clear: The advertising that entices Americans to spend tens of billions of dollars on lottery tickets each year is deceitful and corrosive. It is the only form of advertising unburdened by state and federal truth-in-advertising standards. The fact that it comes from the state—which

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ought to encourage people's strengths, not prey on their weaknesses— makes it all the more foul.

Today, 37 states and the District of Columbia have instituted lotteries, and that number is likely to grow. "Quite simply, states need the revenue," explains David Gale, executive director of the North American Association of State and Provincial Lotteries. "Every dollar raised by the lottery is a dollar you don't need to get from taxes." Across the country, $34 billion in lottery tickets were sold in 1994. In Texas, the lottery contributed $935 million to the state's budget. In New York, the figure was $1.01 billion. As states have become dependent on lottery revenue, the pressure to keep people playing has become relentless. "Marketing is absolutely essential," Gale says. "Lottery tickets are no different than any other product. Your market will lose interest after a while. You have to keep after them."

Like any sophisticated business, lotteries target the specific groups of people most susceptible to suggestion. The Iowa lottery's media plan, for example, contains the following statement of objective: "To target our message demographically against those that we know to be heavy users."

One such target is the poor. The charge that lotteries are regressive—that is, hitting lower-income residents the hardest—makes intuitive sense, since the pitch of wealthy fantasies clearly resonates most strongly among those who are least affluent. "There's absolutely no question about it," says Charles Clotfelter, a Duke University economist and a leading authority on lotteries. According to a study by the Heartland Institute, a conservative think tank, the poor spend more money than the non-poor on lotteries—not only as a percentage of their income, but also in absolute terms. Blacks and Hispanics also tend to play more often than whites.

I worked two summers at an Ohio convenience store that sold lottery tickets, and my experience there confirms these findings. The store drew customers from all socioeconomic backgrounds, but lottery players fell into distinct categories. On a normal day, the lottery patrons were mostly working-class blacks. When the jackpots for Super Lotto got sky-high, some wealthier folks joined the lines. But the staple customers—those who spent five, 20, or 40 dollars a day on daily numbers and scratch-off games—were the same people every day: not executives or store managers playing for kicks, but postal workers and retirees on Social Security. You'll see the same trend at almost any lottery outlet. You'll also notice that the same stores almost invariably sell liquor and cigarettes. Choose your poison.

The image of miserable working people magically transported to lives of wealth and ease is a staple of lottery ads. A billboard once placed in a slum of Chicago read simply: "YOUR TICKET OUT OF HERE." An ad for the D.C. lottery shows a man "before" the lottery—with matted hair, stubble on his face, and glasses—and "after"—freshly washed and clean-shaven, wearing a tuxedo, and holding the program for a theater performance. The copy reads: "Just One Ticket ... And It Could Happen to You." An ad for the Michigan lottery shows a college kid piloting a Lear jet. Then it cuts to him day-dreaming on the job at a fast food restaurant. "Thirty new Lotto millionaires were created last year," the announcer states. "Play the Lotto, and you could win the stuff dreams are made of."

Lottery ads also go after gambling addicts, using a message tuned to their weaknesses. About 5 percent of the population is susceptible to compulsive gambling, according to Dr. Valerie Lorenz, executive director of the Compulsive Gambling Center in Baltimore. In many cases, she says, lottery ads help tip these people over the edge.

Remember Tom's greatest fear, that his number would fall on a day he hadn't bet? This is one of the defining characteristics of compulsive gamblers, and it's a button that lotteries push incessantly. "Don't forget to play every day," the Pennsylvania lottery ad says. Many ads picture disheartened would-be winners whose numbers came up on a day they declined or forgot to play. One ad for Tri-State Megabucks (in New Hampshire, Maine, and Vermont), for example, shows a pathetic man grilling hamburgers on a fire escape, while scenes of wealth and grandeur flash by. The theme is set to the tune of "It Had to Be You."

It could have been you.
It could have been you.
Countin' the dough,

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Ready to go, on that three-month cruise.
Walkin' in style, down easy street,
Wearin' a smile, it could have been sweet.
But what can I say?
You just didn't play.
It could have been youuuuu!

The theme of magical, instant transformation also lures problem gamblers. "They live in a very painful world," says Dr. Lorenz. "They want to escape into fantasy, and they want it instantly." And, of course, the sheer regularity of the ads is a curse to addicts trying to stay on the straight-and-narrow. "I hear this all the time from lottery addicts who are in recovery," Lorenz says. "They'll cover their ears or their heads. They'll say, 'I wish I could leave the state.' But that wouldn't help. It's all over the country."

The ads never mention the losers. Tom Cummings, executive director of the Massachusetts Council on Compulsive Gambling, told me about two women he has been counseling. "One lost her house after going $40,000 in debt playing the lottery," he said. "The other gambled away money that was supposed to pay for her daughter's education. All on the lottery."

Lotteries aren't alone in suggesting that their product has magical qualities—that's the art of advertising. But lottery ads take a prize when it comes to their systematic distortion. Because the lotteries are chartered by state legislatures, they're untouchable by federal regulators and they consider state regulators their colleagues in public service. This allows lotteries to conceal the astronomical odds against winning and inflate the size of jackpots.

Consider a 1993 California radio spot profiling a lottery winner: "John Padgett went to bed on Saturday night a regular guy," the announcer says. "When he woke up, he was worth $11 million. That's because he's Super Lotto winner number 610."

Well, not quite. Padgett did win an $11.5 million jackpot. But that's not *worth* $11.5 million. Any prize over a million dollars is paid out over 20 years. Padgett's annual payment came to $575,000. After taxes, the actual yearly award is worth around $400,000. And the lost value—due to both inflation ($400,000 will be worth far less in 2013 than it is today) and lost interest—is significant.

It may be hard to sympathize with someone receiving a $400,000 check every year. But this ad—and nearly every state uses a similar pitch—is clearly misleading. The government would never allow similar distortions from private sector advertisers.

Finance companies, for example, are explicitly forbidden to air commercials that feature investors who have earned vast sums of money with the message, "It could be you." But lotteries do just that. "I was probably going to have to go back to work to make ends meet," Kentucky lottery winner Denise Golden says in one ad. "And now I won't have to.... It's a dream come true."

Lotteries are also exempt from Federal Trade Commission truth-in-advertising standards and rules that, to give just one example, require contests and sweepstakes to clearly state the odds against winning in every advertisement. Omitting the odds is a crucial element of lotteries' media strategy, since they're trying to convince people that if they play long enough, they are certain to hit the jackpot. "Sooner than later," says an ad for the West Virginia lottery, "you're gonna win!" "We won't stop until everyone's a millionaire," the New York lottery promises.

A clue as to how far lotteries exceed the bounds that constrain other advertisers is indicated by a report from the National Association of Broadcasters issued in 1975. Three tactics seemed clearly out of bounds, the NAB concluded:

1. [Indicating] what fictitious winners may do, hope to do or have done with their winnings.
2. [Using] unqualified or inaccurate language regarding potential winners' winnings. (e.g. "There's a pot of gold for those who buy lottery tickets"; "Buy a ticket and be a winner.")
3. [Utilizing] approaches which praise people who buy lottery tickets or denigrate people who do not buy tickets.

Today's lotteries hold themselves to no such standards. The only rule is to produce maximum profit. Even in Virginia and Texas, two states that forbid their lotteries to "induce" people to play, ads make gambling seem fun and glamorous. Missouri originally required all its lottery ads to include a disclaimer: "This message ... is not intended to induce any person to participate in the lottery or purchase a lottery ticket." The disclaimer was dropped in 1988. It was thought to be hurting sales.

Lotteries defend themselves against criticism by citing the revenue they raise. They also advertise to publicize their role in funding state projects. (Not

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only does this approach bolster political support, it's also a shrewd ploy to hook more players. Gambling is fun—and it's also a public service!)

Each state has its own slogan: "When Colorado plays, everybody wins." "The Missouri lottery: It makes life a little richer for all of us." The premise of these ads—and a crucial element of lotteries' popularity—is that money goes to improving favorite areas of state spending, like schools or parks. But this is a mere accounting trick. Ohio claims that its lottery revenue goes toward education, for example. "But that doesn't mean that the budget for education grows by that much," David Gale explains. "What happens is, the legislature budgets this much for education. They see the lottery will contribute this much. So they take the money they would have spent on education and put it to other uses."

Most states avoid the fiction altogether and say outright that the money goes to the general fund. But that doesn't stop lotteries from claiming credit for the very best of state government. On its 20th anniversary, the Maryland lottery ran a series of "public service" ads. One pictured a nurse holding an infant, saying the baby would get better care because of the Maryland lottery. Another ad in the series gave credit to the lottery for the high school graduation of an inner-city black teenager.

It is true that lottery profits go to state treasuries. But so do taxes. Taxes are also honestly raised and reflect community decisions about how to fairly distribute burdens and responsibilities. In the current political climate, raising lottery revenue is a political virtue; raising taxes is political death. Naturally, politicians choose the easy route. New York Governor George Pataki recently announced plans for an enormous tax cut. He intends to make up the loss in revenue through the introduction of "five minute keno" in liquor stores and bars, which is expected to net the state $115 million per year.

Lotteries defend themselves by pointing out the obvious: No one is forced to buy a lottery ticket. "I get so angry when people say they should decide how [others] should spend their money," says Teresa La Fleur, who publishes books and a magazine for the lottery industry. "Unless we decide it's wrong to gamble, it's just a fact of life that people are going to make choices with their money."

But states don't merely allow, or provide, gambling. They stimulate it. In addition to running ads, some states even conduct direct-mail campaigns, sending coupons for free tickets via mail. In a typical campaign, cited in *Selling Hope: State Lotteries in America*, by Clotfelter and co-author Phillip Cook, 35 to 40 percent of the coupons were redeemed for lottery tickets. One-third of those who redeemed the coupons were new players; one-third of these new players began to play regularly.

Considering the addictiveness of lotteries, these types of promotions are inexcusable. Of the nearly 40,000 calls to the Council on Compulsive Gambling in New Jersey last year, for example, 52 percent complained of addiction to lottery games. Imagine the outcry if Phillip Morris sent free packs of cigarettes through the mail.

In fact, the parallel between cigarettes and lottery tickets is uncanny. That's why both have been the subject of strict limits on advertising. Until 1974, when Congress repealed a ban on the promotion of gambling in the mass media, TV stations couldn't so much as mention winning numbers. Now, of course, TV is the most popular medium of advertising. Besides the many commercials, lottery drawings are televised and a number of states have half-hour game shows centered around the lottery.

Congressman Jim McCrery, a Republican from Louisiana, has introduced legislation requiring the Federal Trade Commission to impose truth-in-advertising standards on lotteries. That would be a start. But a more dramatic step—banning ads altogether—is in order.

Lottery ads don't just sell a product. They sell a way of life. One ad for the Washington state lottery shows a line of workers punching their time clock. "The true joys in life," the announcer says, "are not found in the empty pursuit of pleasure, but in the accomplishments realized through one's own hard labor. For nothing satisfies the soul so much as honest toil, and seeing through a job well done." Then the man at the end of the line takes his timesheet and throws it out the window. "Of course, having a whole bunch of money's not bad either."

When will public officials stop for a moment, and listen to what they're saying—that hard work and patience are for suckers, that civic virtue is a function of how much you spend on the lottery? "Even in these cynical times," says Clotfelter, "government has some moral capital. So when the government says 'Children, stay in school'; 'Husbands, don't beat your wives'—these have some value to them. If you take that capital and use it [the way lotteries do], one has to ask, does this serve the intention of the state?" □

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The Case for Unions

The rising tide that has raised the boats of industry has left a lot of workers drowning. That's why we need a reformed and reenergized labor movement

BY SEAN REILLY

When Safeway told its northern Californian workers earlier this year that it was "redefining"—read "narrowing"—health benefits, the grocery store giant pleaded poverty: Competition from discounters and superstores was forcing it to cut costs.

So imagine the employees' surprise when the supermarket chain announced that its first-quarter profits were 48 percent higher than the preceding year, and that it planned to invest more than $400 million in remodeling old stores and building new ones. Safeway's stock, the company boasted, had soared 51 percent in 1994. Steven Burd, the company's CEO, had taken home a cool $1.26 million, not including his stock options and benefits.

Fortunately, Safeway's workers had someone on their side: the United Food and Commercial Workers Union (UFCW). Sixteen thousand clerks, baggers, and meat-cutters promptly went on strike. About a week later, Safeway agreed to extend their old contract for three years—not a dramatic improvement for the workers, but at least not a retreat.

Such stories of corporate attempts to redistribute wealth in management's favor are all too common these days, but union victories on behalf of the working man are rare. Once a pillar of American industry, labor unions now face irrelevance, if not extinction. From their peak in the fifties, when they signed up roughly one in three American workers, unions now represent only one in six. Not counting public sector employees, the figure is closer to one in 10. If private sector unions continue to decline at the present rate, they will represent less than 5 percent of the workforce by 2005.

That's not just a statistic; that's a potential disaster. With workers' wages falling, benefits disappearing, and safety protections eroding, a viable labor movement is a vital antidote. What Adam Smith wrote two centuries ago in *The Wealth of Nations* holds true today: "The workers desire to get as much as possible, the masters to give as little as possible. It is not, however, difficult to foresee which of the two parties must, upon all ordinary

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occasions, have the advantage in the dispute."

Certainly, unions are not a magic bullet for workers' ills. At times they've done more harm than good. Government employee unions have stalled reform by protecting the jobs of poor performers, while many private sector unions have deservedly acquired reputations for greed and corruption. But at their best, unions are one of the few forces left in this country still fighting for a better life for workers.

A Hard Rain's Gonna Fall

Statistics paint a clear picture: American workers are getting a smaller piece of the economic pie. Between 1929 and 1973, incomes for American workers rose an average of 2 percent a year. Since then, they've stagnated, or worse; for the backbone of the blue-collar work force—men with a high school degree or less—wages have fallen at least 20 percent in real terms over the past two decades. Unless it is raised, next year the minimum wage will reach a 40-year low (in real terms). And nearly 20 percent of American workers take home paychecks that leave them below the poverty line.

Benefits are also under siege. The share of workers with employer-paid pension plans declined roughly 25 percent from 1979 to 1988. In the same period, the share of workers under 65 with employer-paid health care dropped from 63 to 56 percent.

That's partly because shifting workers from full- to part-time status, or relying on temporary workers, has become a popular way to cut costs. Temps and part-timers earn 20 to 40 percent less than full-timers for the same work. In fact, a growing number of service industries rely on part-timers as the bulk of their workforce. The largest private employer in the country isn't General Electric or Wal-Mart, it's a temporary agency called Manpower, Inc.

First Union Bank, which operates 117 Washington-area branches, recently announced it was shifting three-fifths of its tellers from full- to part-time status to save customers money, according to a bank spokesperson. Part-time work isn't inherently bad—in fact, for many families it allows for needed flexibility. But when a shift to part-time work means a reduction in benefits—and there's no national health care system to pick up the slack—the change can be catastrophic. And too often, shifts are justified by the need for cost-cutting, even as CEO salaries are going through the roof. First Union's CEO earned more than $1.7 million in 1994.

Like workers' wages, working conditions in many low-wage industries are suffering. Take the Southern poultry workers Tony Horwitz profiled in *The Wall Street Journal* last December. Saddled with miserable, repetitious jobs in an industry whose injury and illness rate is almost double that of coal mining, they have little hope of ever making much more than $7 an hour. Discipline in some processing plants is so rigid that employees reported urinating on themselves rather than leaving the line without permission.

These conditions and trends are disturbing in themselves, but they're particularly abhorrent in a growing economy. Consider this: In 1972, chief executives at America's largest companies made 40 times the pay of the average worker. Today that ratio is more than 140 to one. During the eighties, the total amount of money spent on salaries over $1 million increased by 2,200 percent—50 times the increase for salaries between $20,000 and $50,000.

Conventional economic wisdom blames stagnating wages and poor conditions on the globalization of the U.S. economy, the continuing shift from manufacturing to service industries, and corporate imperatives to get "lean and mean." No doubt, these are all factors. But so is corporate greed.

Workers need protection from employers' attempts to hold down wages and benefits. Historically, the most powerful force providing that protection was the union movement. It's no coincidence that relatively few of the poultry workers Horwitz profiled, for example, have union protection; indeed, he noted that industry leaders like Perdue Chicken and Tyson Foods, Inc. "have long been renowned for combatting unions."

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When unions were in the mainstream, rather than in the margins as they are today, their impact was powerful. Since the nineteenth century, the labor movement has played a role in some of this country's proudest moments. Unions didn't just wage battles against individual employers—although those struggles were crucial during the rapid industrialization of the early twentieth century—they also fought hard for broader social justice.

Unions led the fights for the 40-hour work week, the abolition of child labor, workers' compensation, and Social Security (an achievement even the virulently anti-union seem to embrace today). During the Great Depression, mineworker and autoworker unions helped fight for unemployment insurance and a minimum wage. Union successes brought more blue-collar workers into the middle class. And the labor movement's efforts to protect worker safety also brought initiatives like the Occupational Safety & Health Administration. In short, labor's victories shaped the American workplace as we know it today.

Union triumphs are not just a thing of the past, either. Despite their dwindling membership, unions still help millions of working people secure decent wages and benefits. At Harvard University, for example, the Harvard Union of Clerical & Technical Employees, which spent 15 years fighting to organize, has now seen its members' average salary grow by $7,000 in the last six years. Minimum employee pensions have been doubled, employees' share of health insurance premiums has been halved, and the university now puts up money for education and child care.

Union workers make 39 percent more in pay and benefits than non-union ones, according to the Bureau of Labor Statistics. Even conservative economists concede that shrinking unionization has contributed to the inequity between worker output and wages, the growing gap between white– and blue-collar wages, and the decline in benefits. Unions, then, would seem the obvious solution to workers' woes. But many workers don't see it that way, and for that union leadership must take much of the blame.

Before World War II, most Americans equated unions not just with working-class issues, but with a working-class ethic. But union bigwigs spent the post-war era burrowing their way into the establishment. They sought perks and prestige, and by the fifties and sixties had become stodgy "statesmen." They often maintained the same close contact with the rank-and-file that the average CEO enjoys with the janitor who empties the corner office wastebasket. Union officials raked in inflated salaries, cut deals with management that undercut the workforce, and became known more for indulging corruption than for championing economic justice.

More damaging still was their shortsighted strategy of rejecting links between wages and productivity. In the late seventies, companies started playing hardball with union employees, citing competitive pressures to lower labor costs. Unions reacted by demanding higher wages regardless of productivity, and they were often strong enough to get their way, at least temporarily. But now, that myopia is costing workers: Had they accepted the link then between wages and productivity, they might be doing better today. Instead, as output per worker jumped 12 percent in the eighties, real wages and benefits for workers rose only 4 percent.

Unions declined further in the seventies and eighties. Labor leaders proved themselves ill-equipped to adjust to an economy shifting away from heavy industry. The influx of women and immigrants into the workforce also caught white male leaders off-guard. (In the course of a failed bid to organize Harvard's mostly-female clerical and technical work force, United Auto Workers officials once planned to hand out pantyhose.) Rather than aggressively seeking new territory, many union leaders waited for Congress to ride to the rescue by strengthening pro-labor laws (it never happened). And unions stubbornly defended such totems as the Davis-Bacon Act, which inflates the pay-scale for workers on government construction contracts.

When it comes to out-of-touch leaders and poor strategy, however, public employee unions take the cake. Teachers' unions, for example, have done real damage to the quality of American education by making it almost impossible to fire bad or marginal teachers. Public employee unions' insistence on protecting jobs—even the jobs of incompetents—is particularly galling in this era of downsizing and government reform. "D.C. Employees Circle the Wagons," one re-

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Union Yes!

Associated Press

cent *Washington Times* headline announced. The story that followed depicted unions fighting to prevent layoffs in the country's most bloated and incompetent urban bureaucracy.

Some unions have made strides, but they haven't come nearly far enough. Take the Teamsters, which for many Americans remains the ultimate symbol of unions gone bad. In 1986, as thousands of truckers were losing their jobs in the wake of deregulation, Teamsters boss Jackie Presser was having himself hoisted on a gilded sedan chair at a Las Vegas convention.

Under current president Ron Carey, the Teamsters have ostensibly made efforts to clean house. So it's disappointing that the Teamsters' trustees recently had to ask why union leaders took "unprecedented" payments for apartments, travel, and personal income taxes, even as the union was eliminating out-of-work benefits and hiking dues to cover a multimillion-dollar budget deficit.

Then there's the International Union of Bricklayers and Allied Craftsmen (BAC), which spent more than $2 million in dues on transportation in 1994, with about a third of that going to charter private jets for its president, Jack Joyce. Apparently, crucial union business required him to travel from a summer home in Maine to a doctor's appointment in Baltimore (and back), to Geneva (dropping his wife to visit her parents in Nuremberg along the way), and around Europe for a month by private plane.

With such missteps, unions do management an enormous favor. If union leaders seem to be narrow-mindedly pursuing their own short-term gain, workers are less likely to trust them with their futures. This gives bosses an effective counterorganizing tactic. "Unions don't care about your interests," employers can say. "They're only trying to get rich off you." The truth in such claims makes union organizers' jobs even harder than they already are.

Indeed, union-busting has never been easier. In the place of the notorious "Pinkertons" —guards who served as employers' private armies around the turn of the century—employ-

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ers today turn for union-busting help to blandly named consultants like Modern Management Methods, whose modus operandi involves healthy doses of intimidation and manipulation. Martin Levitt, a former Modern Management employee who authored the memoir *Confessions of a Union Buster*, describes the company's strategy as "corporate terrorism." Clients give the consultants license "to lie, divide, fracture, do whatever it [takes] to destroy the collective spirit of people seeking to exercise their legal rights," Levitt says.

Judy Ray, a Jordan Marsh employee who was fired for trying to organize workers, experienced these methods firsthand. "I have been followed on my day off to restaurants by security guards with walkie-talkies," Ray told the Federal Commission on the Future of Worker-Management Relations last year. "I had ... a management person assigned to work with me eight hours a day, five days a week, who was told he was there solely to work on me, to change my ideas about unions."

When about a dozen nurses at Mountain View Hospital in Gadsden, Alabama, decided last January to sign up with the American Federation of State, County, and Municipal Employees (AFSCME) after their third pay cut in 13 months, the hospital promptly fired 10 of the nurses and ran ads seeking replacements the same day. The nurses were stunned. "We asked why [we were fired] and were told that it was our job performance and our attitude," recalls R.N. Connie McMillan. Hospital administrators had never raised those complaints before.

Thirty years ago, it was rare for management to fire workers for organizing. The 1935 National Labor Relations Act (NLRA), also known as the Wagner Act, made such firings illegal, and the law hasn't changed. But in this era of unsparing cost-cutting, beleaguered workers, and weak unions, bosses have gotten more aggressive and more brazen in defying it.

For employers, union-busting is virtually risk-free: Businesses found to have violated the NLRA must rehire fired workers and pay back wages, but face no other penalties. The Gadsden nurses, for example, have filed a complaint with the National Labor Relations Board. If they lose, they're out of luck and out of a job. If they win, they can return to work for the lower wages and, if they're lucky, claim back pay—hardly a triumph.

In contrast, recruiting new workers into unions is a difficult business. Workers must vote to have a union represent them, and companies can delay or defeat election efforts. The NLRA is supposed to give the unions a fair shot, but it isn't much of a deterrent in preventing abuses: By the late eighties, the National Labor Relations Board had to reinstate nearly 2,000 workers a year because of illegal firings related to union organizing. Compare that to about 600 reinstatements per year in the early fifties, when the number of union elections was about 60 percent *higher* than it is today.

Workers, meanwhile, are increasingly hesitant to join up—no doubt swayed both by management hostility and union ignominy. A survey last year showed that only about 30 percent of nonunion workers would sign up immediately if they had the chance. But another 12 percent would vote against a union that tried to organize their shop purely from fear of angering management. According to Richard Freeman, a Harvard labor economist involved in the survey, that percentage is enough to swing most elections against a union.

Unions have been further weakened by a cold shoulder from the press. Beyond strikes and scandals, mainstream news organizations seem to have forgotten that unions exist. In part, the problem is that so many reporters come from professional backgrounds where organized labor is an abstraction. More to the point, most TV stations and newspapers are now controlled by corporate oligarchies who view unions with all the enthusiasm of a Calvin Klein model contemplating his first wrinkle. A few years ago, a *Washington Post* labor reporter went to cover a $325-a-day seminar on union busting—and found four managers and vice presidents from his own paper in attendance. The consultant putting on the seminar hailed the *Post* as "a leader in the field."

Fighting the Power

Resuscitating unions will require that the unions remember who they exist to serve. They've got to clean up their acts, narrow the gap between leadership and rank-and-file, and recog-

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nize that preserving jobs in the public sector does not always serve the public interest. By doing so, unions can inspire the loyalty of the workers they represent—and that's half the battle.

Of course, strengthened labor laws—such as tougher penalties for employers who violate the NLRA—would be nice. But the Republicans running the 104th Congress seem more likely to open loopholes in safety regulations than to close them in the NLRA. For unions, success in the nineties will require self-reliance and creativity.

Most unions now spend less than 5 percent of their income on organizing; that's far too little to begin to recapture workers' hearts and minds. Some unions understand that. The Service Employees International Union (SEIU), for example, spends 30 percent of its income on organizing, and has results to show for it. More than 8,000 Los Angeles County janitors recently organized by SEIU will see their hourly wages rise from $4.25 to $6.80 over the next five years. Just as important, the janitors will all eventually get family medical benefits.

SEIU is also among the unions adopting tactics that hearken back to the potent activism of the thirties. Perhaps the best-known such effort, the "Justice for Janitors" campaign begun by SEIU in the mid-eighties, is known for in-your-face tactics that range from street theater to civil disobedience. The movement started in desperation in Pittsburgh as building owners flocked toward non-union janitorial contractors. Despite some early setbacks, the campaign has since organized more than 35,000 janitors.

Other unions are trying to link themselves to broader social aims. The L.A. Manufacturing Action Project in Los Angeles County is trying to organize some 300,000 immigrant industrial workers by forging links with churches and politicians, to help meet workers' social needs. "The labor movement was at its best when it had all the characteristics of a social movement," says organizer Joel Ochoa.

Unions are also finding strength in conciliation—and smart business practices. Years ago, the United Auto Workers and others softened their reflexive hostility to management by signing off on "partnership" agreements aimed at improving competitiveness. At some companies, unions have become major stockholders, allowing them to balance management and worker concerns, and encouraging management to view unions as partners rather than as adversaries. In the historically strife-torn mining industry, the United Mine Workers of America has recognized that improved labor-management relations, and the increased efficiency that results, can keep threatened mines open.

Management might heed a similar lesson: In the long run, worker satisfaction is in a company's best interest. Xerox estimates that cooperation with its union has reduced costs by 30 percent and product-development time in half. At Levi Strauss & Co., the country's largest clothing manufacturer, the Amalgamated Clothing and Textile Workers Union is working to revamp production, and the company is cooperating by letting the union sign up even more employees. "The more workers in the union, the greater their voice, and that drives the process forward," Ronald Martz, manager of a Levi plant in Harlingen, Texas, told *The New York Times*.

Those companies are exceptional, but they've recognized a broader truth: Sooner or later, gross inequality and unfair working conditions have an impact on all of society. "Is improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or an inconvenience to the society?" Adam Smith asked. The answer was plain: "Servants, laborers, and workmen of different kinds, make up the far greater part of every political society.... No society can surely be flourishing and happy of which the far greater part of the members are poor and miserable." In other words, no one benefits when a six-buck-an-hour security guard heads for the emergency room with pneumonia because he lacked the health insurance needed to get treatment earlier, or when a single mom working second shift at the neighborhood 7-Eleven needs food stamps to support her kids.

To curb the old-style excesses and myopia, a little comeuppance for unions was certainly in order. But since the seventies, comeuppance for unions has given way to gross injustice for workers. As productivity increases and executive compensation rises to ever more exorbitant heights, it's only fair that workers share in the wealth. We need unions to make sure they do. □

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You Can't Fix It If You Don't Raise the Hood

Before we cut or reinvent government, we need to know more about what it is really doing and think more about what it should do

BY AMY WALDMAN

The Republican chopping block is overflowing. The Department of Energy can certainly go. Commerce, too, is dispensable. Education? We'll be better off without it, they say. For good measure, throw in Housing and Urban Development. Top it off with scores of smaller offices and programs. Government is big and inefficient, the argument goes, so slice away.

But do you have any idea what the agencies that are poised on the block—let alone the ones that aren't—actually do, or whether they do a good job? When did you last read an article that told you? If your answers are "No" and "A long time ago," don't feel bad: Nobody—including the most ardent of the Republican axe-wielders—knows enough about what these places do. Without that information, how can they make intelligent decisions about what to cut, and how to improve what remains?

Occasionally, it's true, a high-profile screw-up prompts the press to unearth important information about a government agency. Last year's American Eagle crash in Roselawn, Illinois, for example, prompted *The New York Times* and *The Washington Post* to run excellent investigations of the Federal Aviation Administration, highlighting the agency's poor track record in responding to safety concerns and the bureaucratic culture responsible. "A review of five years of FAA documents, plus interviews with dozens of officials, paints a picture of an agency that talks a lot about [how to handle different weather conditions] but doesn't get much done about it," the *Post* wrote. Yet this kind of article—a useful analysis of how government actually works—is far too rare.

What's truly mind-boggling, though, is that the government itself doesn't do much better. For any endeavor to work well, it must be regularly examined to make sure it's on the right track. Yet nobody examines, in a sustained and comprehensive way, how America's largest endeavor—the federal government—is doing.

The agencies themselves have little sense of what's going on either within their walls or out in the field, a problem that worsened in the eighties when Ronald Reagan whacked agency evaluation budgets. Since 1978, 33 agencies have established an Office of the Inspector General (IG)—but the IGs

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focus on policing administrative waste and fraud, bounding from one mini-crisis to another. The General Accounting Office (GAO), Congress's investigative arm, does valuable evaluative work. But because it mostly responds to specific Congressional requests, the light the GAO sheds on government operations is spotty. Thumb through a catalogue of GAO reports on, say, HUD, and you'll find a lot of fragmented evaluation of lead-based paint standards or management of the Buffalo Municipal Housing Authority, but very little on the big picture. The GAO lacks the mandate to monitor agencies comprehensively from year to year.

Congress, the institution that spends the taxpayers' money, is also supposed to oversee how all that money is used. But when Congressional hearings do occur, they are usually anecdotal duels between Kafkaesque tales of constituents victimized by the government's bureaucracy and fuzzy stories of those touched by the government's munificence.

The Office of Management and Budget (OMB), which is supposed to keep track of how well the government is being managed, instead spends most of its time number-crunching. It's also horribly understaffed: Just 201 examiners oversee an executive branch with $500 billion worth of programs.

The government, then, is flying blind, and the public knows almost nothing about what it is paying for. And so before anything can be fixed, somebody needs to start getting answers to these essential questions: What is a department doing? What is it trying to do? How well is it doing that job? And, most importantly, what *should* it be doing? Until we know, the biggest chopping block in the world isn't going to make government work any better.

Take the most basic of the questions: What is the agency actually doing? Federal evaluators rarely comb the halls of their targets and talk to government workers about what they're doing and what they're not. When Alice Rivlin became the director of the OMB, she asked a researcher to collect newspaper and magazine clips on the agencies. What greater testament is there to both the failure of government evaluation and the illuminative powers of old-fashioned reporting?

When the press descends into an agency's bowels to see what's happening, its revelations can be striking. "So What Do People At Energy Do All Day Long?" asked a December story in *The Wall Street Journal* by Timothy Noah. By poking around the agency and talking to the secretary, mid-level bureaucrats, and employees in the field, Noah found an awful lot of wheel-spinning going on. People seemed to spend more time writing memos and performing nebulous tasks to improve "quality" than actually accomplishing anything for the country.

A 1981 *Monthly* article detailed a similar trip to the Labor Department to investigate a program called "flexitime," which gave workers greater flexibility in their hours and working conditions. Flexibility proved to be an understatement: Ringing phones were going unanswered as radios blared. Secretaries were reading novels and knitting. A woman padded toward her office in fuzzy bedroom slippers. Nine phone calls to department employees found all of them "out of the office." How could anyone try to evaluate the Labor or Energy Departments without these kinds of simple observations?

Unfortunately, the social scientist mindset that only pure statistics make research respectable has rubbed off on government evaluators. For years, the Department of Education evaluated its largest elementary and secondary student assistance program for disadvantaged children by quantifying how many dollars reached how many children, and how many extra minutes of instruction that meant (about 15 minutes per day).

But what the department's numbers failed to uncover was that the program's structure closeted poor children in classes with low standards and terrible teachers. That fact emerged only after an independent commission made up of people who had seen the program in action sat down and compiled their observations.

The Department of Defense has carefully designed and thoroughly analyzed a series of tests, known as the Armed Services Vocational Aptitude Battery, which are given to soldiers. But no

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one from the DoD has ever gone into the field to see if higher scorers actually do a better job. Numbers are concrete and respectable, but they don't necessarily tell you all you need to know.

The only government agency that does this type of reportorial evaluation with any regularity is the Office of Technology Assessment (OTA). To study airline safety, for example, one analyst worked shifts in air traffic control centers. The OTA is also unique among government evaluators in writing reports in readable, example-laden, and often engaging prose. In contrast, on the rare occasions when other evaluators venture out to see what people do all day, their discoveries are usually buried in "bureaucratese." One Inspector General reported on an office that "was not properly organized or staffed and was not always performing appropriate functions or conducting its work efficiently and effectively.... [It] had more personnel than necessary, unclear missions, and staffing imbalances." Why couch such observations in abstractions?

It's the Mission, Stupid

The next question evaluators should be asking—of the biggest cabinet department and the tiniest job training program—is equally basic: What are you *trying* to do?

The *Monthly* asked this very question of Secretary of Education Richard Riley, whose department is one of those on the Republican hit list. At first, he seemed a bit taken aback. The department's mission, he finally said, is "to be a person for the importance of education in this country ... [to run] our department in an efficient and effective way [and to run] all of the education programs."

Increasing efficiency is certainly a noble cause, but it is a means to an end, not a mission. "You can have," notes Charles Bowsher, head of the GAO, "an efficient program that is totally ineffective." The mission of the department, Riley might have answered, is to make sure all Americans have equal opportunity to get an education. Or to use education to make our citizens better able to compete in a changing economy. The shallowness of his answer suggests that he isn't trying to guide his department's efforts by this crucial question.

Apparently, Riley is not alone. What exactly is Commerce's mission? *The Wall Street Journal*'s Helene Cooper recently asked. "We are at the intersection of a variety of significant policy areas that spur economic growth," replied Jonathan Sallet, the department's policy director. What does it mean to be "at the intersection?" Does that involve actually doing anything? As the *Journal* noted, that "intersection" includes everything from trade talks with Japan to scientific research on the zebra mussel.

Similar confusion reigns elsewhere. The federal government spends more than $200 billion annually contracting out government services. So it's worrisome, to say the least, that the State Department had such a hard time figuring out what it wanted its contractors to do that it had to hire another contractor to help it decide.

The GAO has occasionally tackled the mission question—what is this government agency trying to accomplish?—most notably in its 1992 transition reports for the incoming White House. But these reports didn't try to answer the question; they just encouraged departments to do so.

One of the reasons the "what are you trying to do" question doesn't get asked more often is that the answer might reveal why congressmen pass many programs in the first place—to get their names on programs or to send dollars to their districts, rather than to accomplish something meaningful. And so Congress has adopted a "kill the messenger" approach—if the GAO points out that no one knows why we're conducting a certain program, Congress accuses it of overstepping its bounds and getting into "policy analysis." As a result, the GAO's ability to evaluate mission is hamstrung by the very institution—Congress—that needs to know the most.

The Education Department, for example, has been funding a vocational education program for years to train people for work in fields such as cosmetology. Two hundred thousand aspiring cosmetologists sign up for the program every year. Just one problem: The country already has a surplus of one million cosmetologists, and that means there aren't many nail parlors hanging "Help Wanted" signs. The question no one's asking: Is this program meant to train people or to give them a way to earn a living?

With a mission clearly in mind, the evaluators could then truly determine the answer to the third question: *How well* are the agencies doing what they are doing? Are they achieving their mis-

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sions? Here, too, the government fails miserably. In 1991, the GAO surveyed the 103 agencies that spent 76 percent of the $1.3 trillion in federal outlays that year. Of those, only nine could claim that they were evaluating their programs based on information that legitimately measured progress.

Once again, the Energy Department provides a perfect example. Oddly buried in the department is a program meant to bolster pre-college science and math education. The Energy Department, the GAO wrote, "had not evaluated almost half of its 17 resource-intensive projects." (We assume "resource-intensive" means they cost a lot of money.) In other words, the department had no idea what, if anything, it was getting for its—that is, your—money. Yet it substantially increased funding for most of these projects—in one case by over 1,700 percent. The reason? "The department did not emphasize effectiveness evaluations because program expansion was its primary objective," the GAO report tersely stated.

Similarly, Health and Human Services gave public recognition awards to "promising" drug abuse prevention programs without knowing whether any of them actually prevented drug abuse. And while the government has been running an unseemly number of job training programs—more than 160 at last count—the GAO found that none of the administering agencies knew whether they were helping people find jobs.

The understaffed OMB, overwhelmed with spreadsheet configurations and reconfigurations, spends very little of its time looking into whether programs actually work. The IGs are little more than bean counters, checking to see whether minute regulations have been followed, or policing mini-scandals while the bigger issues boil right under their noses. The Department of Energy's IG, for example, revealed last year that—alert the media!—"the Parking Committee [for the department] had not been formally established or defined and that there were no formal guidelines for its activities." Part of the problem is that Congress measures IGs' success by the number of dollars they save their departments, and that means busting bad administration—not badly conceived or implemented programs.

To be sure, government should take care that contractors are not ripping the taxpayer off—that the Pentagon or General Services Administration isn't paying hundreds of dollars for a legal pad. IGs play an important role in uncovering the costly abuses which can undermine the public's faith in government. But which is the greater fraud, the contractor skimming $10,000 off a government contract or the job training program that costs $100 million but isn't providing anyone jobs?

Look Before You Chop

If, by chance, agencies do successfully evaluate how well they've fulfilled their mission, they believe that their duties end there. On the contrary: Each agency needs to go one step further and ask what precisely its mission *should* be.

When this question doesn't get asked, the government runs on autopilot, and that can waste an awful lot of gas. There's no better example of this than the Rural Electrification Administration (REA), which was created at the height of the Great Depression to bring electricity, and later telephones, to farms and isolated areas. It was a noble mission, and one well-served. But by 1953, more than 90 percent of farms had electricity. By 1975, 90 percent had phones. Yet even today, the REA marches on.

The Clinton Administration has begun to examine, agency by agency, just what line of business the federal government should be in, as part of the National Performance Review's (NPR) second phase. (The first phase looked at improving efficiency.) The idea holds promise. But some of NPR's vaunted successes don't hold up to much scrutiny. Bruce Babbitt has made much of his plan to eliminate the Interior Department's Office of Territorial and International Affairs, but, as the department's own spokesperson says, the office "has been downsizing for years. The staff was extremely small." There is a simple reason for such small-potato sacrifices: NPR relies on agency employees to say what they don't need to be doing, and that's the same as asking them to put themselves or their co-workers out of business.

Eager to toe the downsizing line, NPR and all the other evaluators generally miss another essential point. It is not enough to eliminate programs that have outlived their usefulness. To truly transform government, they must also ask whether agencies need a more active vision of their role.

The results can be astounding. As Daniel Franklin details elsewhere in this issue (see page 38), the Federal Emergency Management Agency

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languished for years as one of the government's least effective agencies until it stepped back to ask what its mission *should* be. Instead of seeing itself as an agency that responded—slowly—to state requests for aid, the agency recast itself. When disasters hit, it resolved, it would do all it could to help. Now it is one of government's success stories.

For years, the Coast Guard has inspected towing vessels for leaks, measuring success by the number of inspections conducted. But what the Coast Guard really wanted, it finally realized, was to reduce sea fatalities. Some two-thirds of accidents at sea result from human error; far fewer are the result of leaky vessels. So now the Coast Guard puts more of its energy into training people not to make mistakes. And to measure success, it doesn't count the number of training programs—it counts fatalities, which have already begun to drop.

The Coast Guard's new thinking was prompted by a law Congress passed in 1993, the Government Performance and Results Act (GPRA), which orders agencies to define what they're trying to accomplish and find ways to measure whether they actually meet their goals. The GAO and OMB are beginning to help agencies answer these questions, and by 1999 the performance reports are scheduled to become part of the budget.

But GPRA will work only if Congress takes an interest in it. Otherwise, it will become just one more set of numbers dutifully reported, and dutifully ignored. And there's another reason Congress needs to pay close attention. As President Johnson's Programming-Planning-and-Budgeting System showed, agencies asked to cough up numbers to show results can exhibit extraordinary amounts of ingenuity—not devoted to improving performance, but to doctoring the numbers to make it look like they have.

But at least the GPRA is trying to move in the right direction. The Republican abolitionists, unfortunately, are not. Even as they argue that the government's hand is clumsy, they are sure to make it clumsier by cutting back on the very agencies that uncover wasteful programs and suggest better ways of carrying out others. The Republicans have announced plans to reduce the staff of the GAO—which has been getting better and better at evaluating government over the last 15 years—by a quarter, leaving it with about 4,000 employees. Even more amazing, they plan to eliminate the entire 143-person Office of Technology Assessment, with its blunt and literate reports on program effectiveness.

If anything, this should be a time to *expand* the government's evaluators—they're our best tool for cutting the budget intelligently. We ought to give them broader mandates—the GAO, for example, should be required to do regular, comprehensive reviews of every agency at least every three years. The IGs ought to be encouraged to look more at what's working and what's not in their agency. They need to be reminded that the biggest perpetrators of waste, fraud, and abuse are programs that spend money and accomplish nothing.

And the OMB, which is supposed to be making sure that these programs are managed properly, needs some serious beefing up. The Clinton Administration has moved to make one important reform: joining together the budget and management functions, which were separated for two decades. By combining them, the same person who has the power of the purse will have leverage to make sure the money is well spent. And the person who is evaluating the agency will be a real expert in its workings, rather than a management guru spouting 10-step abstractions.

But no amount of reform will do much good until the OMB gets the people it needs to do its job properly. In 1955, OMB had 450 staffers for a federal budget of $68.4 billion. Today, OMB has 550 people—for a federal budget of more than $1 trillion. "The chances of us spending significant time doing independent reviews across the board are not great," concedes John Koskinen, OMB's Deputy Director for Management.Yet the White House doesn't ask for more people because it's afraid that it will be beaten up in the press for expanding its own staff while demanding that the rest of the government slim down.

If the press were doing its job correctly, the White House would be more afraid of the stories detailing where government fails. The press should be conducting regular, top-to-bottom analyses of what agencies are doing, what they're trying to do, how well they're doing it, and whether it's the right thing to be doing at all. Now, such stories are far too rare—reporters rely on an agency's critics and defenders for evaluation, as in a recent *Washington Post* story on the National

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Oceanic Atmospheric Administration (NOAA). The reporter simply parroted a Commerce official's warnings of dire consequences if even a single dollar were cut. Cutting fisheries' resources, the official said, would make it impossible to set quotas and make predictions about fish populations. "Make the wrong decision," he warned, "and you can destroy a billion-dollar resource in just a couple of days."

That may be true, but how are we to know? And if the reporter had bothered to pick up the latest Commerce IG's report, he would have found half a dozen examples of where NOAA could stand some slimming—like its plan to "consolidate" into a new building with room for 100 extra employees, or its plan to spend $16.5 million constructing and equipping a facility "that has not been justified and may not be needed."

If the press did annual reviews of each agency—as a public service the major papers could divide the major departments among themselves—agency heads might be scared into trying to answer the important basic questions. Reporters, of course, require incentive too, so why not add a Pulitzer Prize category for this kind of reporting on government?

With a vigilant press, Congress and the White House would be encouraged to hear about—and hopefully do something about—problems, rather than just idly hoping they'll go away. The Space Shuttle Challenger disaster probably would not have happened, for example, if top officials at NASA had not in effect said that they did not want to hear from Morton-Thiokol engineers who knew the O-ring could fail in cold weather. As it is, a highly placed White House official once confessed that nobody in the White House even looks at GAO reports.

These aren't the issues the Republicans are raising, though, even as they speak of razing departments. Instead, they're leading a debate full of sound and fury—but few facts. And they know it: "I don't doubt we're going to discover we did something here we shouldn't have and have to go back and fix it," says Kansas Representative Sam Brownback, one of the freshmen leading the GOP charge. Why not try to make those discoveries now? Regardless of political bent, we should be able to agree that unless we know more about what government does and how well it does it, we can't figure out how to fix it. □

The Washington Monthly

Journalism Award

April 1995

Bruce Shapiro
The Nation

New Haven resident Shapiro uses a searing first-person account of his stabbing—and its coverage in the media—to probe the political debate about crime and the misguided policies that result.

Jonathan Cohn
American Prospect

Cohn makes a convincing case that journalists, who once earned working-class wages, are now solidly entrenched in the elite, a fact which jaundices their coverage of everything from health care to tax increases.

David Beers
Mother Jones

Beers explores how, in a post-Cold War world, the nuclear weapons industry is lobbying, with little public scrutiny, to protect old projects and launch new ones.

Alan Finder
The New York Times

Finder documents an unsung government triumph: Over the past nine years, New York City has renovated 3,000 buildings and built 12,000 new houses, transforming some of the city's worst slums into cleaner, safer communities.

The Monthly Journalism Award is presented each month to the best newspaper, magazine, television, or radio story (or series of stories) on our political system. Nominations for any newspaper, magazine, or radio or television station in the country are welcome. The subject can be government in its federal, state, or municipal manifestation. Please send nominations to Monthly Journalism Award, 1611 Connecticut Ave. NW, Washington, D.C. 20009. Two copies of the article or broadcast text should accompany the nomination.

Nominations for stories published or aired in June will close July 15 and be announced in the September issue. Nominations for July stories are due August 15; winners will be announced in the October issue.

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The FEMA Phoenix

How one federal agency rose from the ashes to become a symbol of what government can do

BY DANIEL FRANKLIN

Rarely had the failure of the federal government been so apparent and so acute. On August 24, 1992, Hurricane Andrew leveled a 50-mile swath across southern Florida, leaving nearly 200,000 residents homeless and 1.3 million without electricity. Food, clean water, shelter, and medical assistance were scarce. Yet, for the first three days, the Federal Emergency Management Agency (FEMA), which is responsible for coordinating federal disaster relief, was nowhere to be found. And when FEMA did finally arrive, its incompetence further delayed relief efforts. Food and water distribution centers couldn't meet the overwhelming need; lines literally stretched for miles. Mobile hospitals arrived late. In everything it did, FEMA appeared to live up to the description once given to it by South Carolina Senator Ernest Hollings: "the sorriest bunch of bureaucratic jackasses I've ever known."

Fast forward one year to the summer of 1993: Weeks of unrelenting rainfall had driven the level of the Mississippi River and its tributaries far beyond the previous records. Every county in the state of Iowa was declared a federal disaster area, as were portions of eight other states in the river basin. But this time, FEMA's response earned nothing but praise. The agency met the needs of the flood victims quickly and with few of its trademark bureaucratic tangles. Said Congressman Norman Mineta, then chair of the committee that oversees the agency, "FEMA has delivered finally on its promise to stand with the American people when floods or hurricanes or earthquakes devastate their communities."

How FEMA transformed itself from what many considered to be the worst federal agency (no small distinction) to among the best is the most dramatic success story of the federal government in recent years. Not only does it provide further evidence that the government can work, it offers a blueprint for what it takes: strong leadership, energetic oversight, and, most importantly, a total reevaluation of its mission.

With a budget of less than $1 billion and only 2,800 employees, the relatively small agency has an enormous and vital role. Few areas provide such a

Research assistance provided by Nicholas Kulish.

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clear case for federal involvement as does disaster relief. State and local governments simply do not have the resources to cope with natural catastrophes like the flood of 1993 or Hurricane Andrew.

But after a string of natural catastrophes to which FEMA's response was, well, catastrophic, people began to wonder whether the feds really did have a role in disaster response. When FEMA bungled its relief efforts after the 1990 Loma Prieta, California earthquake, Congressman Mineta concluded that FEMA "could screw up a two-car parade." In the wake of Hurricane Andrew, the criticisms were even more pointed. *The Wall Street Journal* ran a front page article that quoted a range of disaster specialists who thought that the agency was more trouble than it was worth; it would be better, they maintained, to dissolve the agency entirely than to try to reform it.

One of the most maddening problems with FEMA, the critics said, was the constant bureaucratic delay. FEMA workers would routinely hold up vital aid requests because the proper forms were not filled out or certain signatures had not been included. "If we had asked for a certain resource this way we could have gotten it," said Kate Hale, director of the Dade County Emergency Services of her experience after Hurricane Andrew, "but FEMA would say that we hadn't framed the question properly.... FEMA's employees appeared to be terrified at making a mistake, so they'd rather do nothing than make a mistake because a mistake could cost them their career."

It was a problem that had long dogged FEMA. In 1990, as Hurricane Hugo hurtled towards Puerto Rico with winds of 120 miles per hour, Governor Rafael Hernandez-Colon sent the proper federal aid request forms to FEMA headquarters in Washington. One scrupulous bureaucrat, however, noticed that the governor had failed to check one section of the form. Dutifully, the FEMA worker sent the request back—via the U.S. mail. The returned forms did not reach the governor until after Hugo hit. As Puerto Ricans were cleaning up the mess left by their worst hurricane this century, Governor Hernandez-Colon was forced to re-file the request forms and send them, once again, through the mail. Federal aid was held up for days.

The red tape was aggravated by old-fashioned incompetence. FEMA was, in the words of former advisory board member and defense analyst Lawrence Korb, a "political dumping ground," a backwater reserved for political contributors or friends with no experience in emergency management. President Bush, for example, appointed Wallace Stickney, head of New Hampshire's Department of Transportation, to lead FEMA. Stickney's only apparent qualification for the post was that he was a close friend and former next door neighbor of Bush Chief of Staff John Sununu. Throughout his time there, Stickney was nearly invisible, except for regular trips to Capitol Hill to defend the agency against its many critics.

Because FEMA had 10 times the proportion of political appointees of most other government agencies, the poorly chosen Bush appointees had a profound effect on the performance of the agency. Sam Jones, the mayor of Franklin, Louisiana, says he was shocked to find that the damage assessors sent to his town a week after Hurricane Andrew had no disaster experience whatsoever. "They were political appointees, members of county Republican parties hired on an as-needed basis.... They were terribly inexperienced."

FEMA's most serious problem, though, was even more basic: Its mission was misdirected. First, FEMA was still spending nearly half of its budget on the mission it had been created in 1979 to perform: to prepare for a massive nuclear attack. The more immediate mission of natural disaster response was handicapped by the drain this operation put on the agency's resources.

But even in responding to natural disasters its mission was muddled. FEMA saw its main responsibility as distributing federal loans and grants to help rebuild an area after a disaster. It would not issue direct aid to a state—or even prepare to deliver aid—until it was given a specific request by the governor. That may seem reasonable—why give help that isn't asked

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for?—but, as Hurricane Andrew made clear, this wholly reactive interpretation of the agency's role was at the root of many of its difficulties.

In Florida, the hurricane so overwhelmed state officials that they didn't even know what had happened, let alone what help they needed. Initially, Andrew was expected to hit Miami. But when the hurricane hit 20 miles south of the city the morning of August 24, most Floridians breathed a sigh of relief. "The storm surges were not as bad as anticipated," said one spokesperson for Governor Lawton Chiles. One National Guard major issued this report the day after the hurricane: "Florida has not requested any support from other states or federal agencies, nor do we project a need."

Florida was slow to realize its own dire straits because many of its emergency workers were among the storm's victims. Half of the members of the Dade County Police and Fire Departments had lost their homes. Most of the area's fire and police stations were destroyed. Like their fellow southern Floridians, disaster management workers were looking for food, water, shelter, and medical care. The state was unable to issue specific requests for aid because it had no one available to assess the damage.

Finally, as the full extent of the damage—and the lack of federal action—prompted heavy criticism, President Bush circumvented FEMA and formed a hurricane task force led by Secretary of Transportation Andrew Card. Card and the task force flew down to Florida to assess the damage. As the Department of Transportation airplane passed over southern Florida, the members of the task force were stunned by the extent of the damage. "This eerie silence came over the plane as we flew over mile after mile of pure devastation," remembers Shelley Longmuir, the task force's chief of staff. "You got the feeling that you were no longer in the United States, but in some far away, mystical place because there were none of the reference points of civilization.... It looked like Beirut."

FEMA would have seen as much—had it bothered to look. Because of its reactive posture, it had never sent a team of damage assessors to survey the wreckage. Not until Card and the task force flew to Florida did the federal government have a true sense of the storm's impact.

Upon landing, Card met Chiles in the Miami airport to offer federal aid. Chiles initially declined, saying that Florida could handle the emergency. It is more likely that the governor did not want to have to pay the required 10 percent of the recovery costs. Unlike the FEMA officials who took Chiles at his word, Card insisted that the damage was beyond Florida's response capabilities, and pressed Chiles to accept massive federal aid to be delivered by a large U.S. Army presence.

After some pushing, Chiles eventually agreed. That day, Bush signed the order to send in Army troops to build shelters and provide food and medical care to the victims of the storm. The next day 3,500 troops were in southern Florida, the first of 17,000 that would eventually serve. Almost immediately, Hale says, the situation changed. "The first thing that happened was the morale improved the minute that people felt they weren't alone, they weren't abandoned.... You could just see people find the strength to go one more day when they were at the point of collapse."

As life in southern Florida began its long march back to normalcy, Congress began to consider what should be done with FEMA. It was clear to many on Capitol Hill that it was time to either fix FEMA or do away with it altogether. In the fall of 1992, Senator Barbara Mikulski, then the chairman of the appropriations subcommittee with jurisdiction over FEMA's budget, told the General Accounting Office (GAO) that it had to suggest real improvements for FEMA or else the GAO itself would see its budget slashed. Officials took the threat from Mikulski, whose subcommittee had jurisdiction over the GAO's budget as well, very seriously. "This isn't a member of Congress we were eager to upset," says GAO administrator Stan Czerwinski. "She wanted this fixed and she's a very key player in Congress for us, and we were there to help her."

With uncommon motivation, the GAO took a tack not often found in government audits. Rather than looking at whether FEMA lived up to its own expectations, as previous studies on the agency had done, the GAO asked what the most effective and efficient role for the federal government would be in a large disaster, and how FEMA could fill that role. This common-sense shift had a profound impact. When agencies and departments pause to self-reflect, they usually

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ask themselves how to improve their performance in what they are already doing. Rarely do they ask, "What should we be doing in the first place?"

With this question in mind, says Jeffrey Itell, the GAO project manager who conducted the study, the answer was "a no-brainer." FEMA's enabling legislation, the Stafford Act, provided FEMA officials with powers that the bureaucrats didn't exercise. "We found that without state requests, FEMA could assess the catastrophic area, assess what assistance the state needed, start mobilizing that relief, present its recommendations to the governor, and, if necessary—as Andrew Card did—get in the governor's face to force the issue of accepting federal help. Before Hurricane Andrew, FEMA officials took almost none of these steps. Consequently, when a disaster occurred, FEMA's relief efforts were inevitably too little, too late."

FEMA to the rescue.

The GAO's final report recommended that FEMA develop a more proactive sense of its mission. The report caught a bit of luck in November 1992 with the election of Bill Clinton. The model for FEMA fit nicely with the new president's notion of an activist federal government. To implement this change in mission, the President appointed James Lee Witt as the agency's director. An unassuming and direct man, Witt was a former construction company owner and county judge who had worked with Clinton in Arkansas as the director of the state Office of Emergency Services. As state director, he had earned high marks for the successful management of three presidential disaster declarations, including two major floods in 1990 and 1991.

Witt's first challenge was to assemble a staff to direct the new FEMA. Much criticism had been leveled at the high number of political appointees in the agency. More than one member of Congress, including Senator Mikulski, had called for FEMA to be reorganized along the lines of most federal agencies, to be "professionalized." In other words, only the highest positions would be appointed by the president, while all other positions would be staffed by career civil servants. Only then, these critics suggested, could FEMA properly respond to catastrophes.

But Clinton and Witt demonstrated an understanding of the virtues of the patronage system. The high number of political appointees allowed the new administration to free itself of the incompetents and replace them with talented new people. Clinton agreed to let Witt interview all potential appointees to ensure that they were qualified for the jobs. As a result, the resumes of the team they assembled are formidable. Elaine McReynolds, head of the Federal Insurance Administration served as the insurance commissioner of Tennessee for over seven years. Richard Moore, a former state legislator from Massachusetts, was appointed to help make state and local governments better prepared for disasters. Carrye Brown, head of the Fire Administration, had worked on Capitol Hill for 18 years where she was a specialist in disaster and fire legislation.

With a new mandate and the staff to go with it, Witt conducted a top-to-bottom review of FEMA's mission, its personnel, and its resources. The review brought swift changes. In its first two years, the agency shut down several unneeded field offices. It reduced internal regulations by 12 percent and drafted a plan to reduce them by 50 percent by the end of 1995. It strengthened programs that prepared states for natural disasters. And, so it could better inform state directors

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what aid was available, FEMA conducted the first comprehensive inventory in the agency's history.

Recognizing the unlikelihood of a massive nuclear attack, Witt also moved the agency out of the nuclear war business, making available to natural disaster responses many of the resources the agency had accumulated in preparation for a Soviet attack. One hundred FEMA disaster specialists were freed up to deal with natural catastrophes.

Virtually overnight, the agency has developed a new reputation for quickness and efficiency. Gone are the bureaucratic swamps that the old FEMA had made its hallmark. It is telling that when state disaster officials talk about FEMA's response time, they no longer speak in days or weeks, but in hours. They speak of phone calls, not of forms dropped in the mail.

Consider the Oklahoma City bombing. Tom Feuerborne, director of Oklahoma's Civil Emergency Management Department, can cite the events of April 19, 1995 almost down to the minute. It was 9:02 a.m. when a truck bomb ripped through the Alfred P. Murrah Federal Office Building in downtown Oklahoma City. At 9:30, Feuerborne placed a phone call to FEMA's headquarters in Washington. At 2:05, FEMA's advance team arrived, complete with damage assessors and members of Witt's staff. Six hours later, at 8:10 that evening, Witt himself arrived to be briefed on the situation. By 2:30 a.m. April 20, the first of FEMA's search and rescue teams had arrived to supplement the efforts of the Oklahoma City fire department. Says Feuerborne, "My office is *very* happy with the quick response of FEMA."

Ellen Gordon, administrator of Iowa's Emergency Management Division, has a similarly uncanny memory when it comes to FEMA's response to the Midwestern floods of 1993. Shortly after midnight on Sunday, July 11, she received a call from L.D. McMullen, the general manager of the Des Moines Water Works. Their operation was at the point of collapse, he said. The 250,000 citizens of Des Moines would soon lose all of their water.

One year earlier, Gordon would have mailed federal relief request forms to Washington, where, as Puerto Rico's Governor Hernandez-Colon discovered, they may have received a less-than-speedy response. But all Gordon had to do was place a phone call to the FEMA disaster field office located in Davenport. Early Sunday morning, FEMA officials arrived in Des Moines, and, by 11:30 a.m., they had determined a plan of action. By that evening, 29 water distribution centers had been established. The next morning, the first of 30 self-contained water purification machines arrived. For the next two-and-a-half weeks, the Des Moines Water Works was inoperable, but the city had all the water it needed. "Nothing sticks out in our minds that we had to haggle over or justify," says Gordon. "Whenever we asked for assistance it was there."

It is a sentiment shared by virtually all those involved with the response to the midwestern floods. At a Congressional hearing in October 1993 to appraise FEMA's performance, congressmen and state disaster officials who testified praised FEMA's efforts and marveled at the turnaround Witt had engineered. Missouri State Emergency Management Director Jerry Uhlmann said that, "this flood showcased FEMA's new commitment and successful efforts in disaster response to catastrophic events." And, as disasters are bipartisan, the response to FEMA's success has been as well. "I haven't spent a lot of time complimenting the President on his appointments," said Oklahoma Republican Daniel Inhofe, "but I sure did on this one."

The true judge of FEMA's success lies not in the praise of Congress, though, but in the minds of the victims of natural disasters. Last year, FEMA sent 5,000 surveys to victims to ask them about the agency's performance. More than 80 percent of the respondents approved of the way the agency was doing its job—a percentage that would have been unthinkable in the dark days following Hurricane Andrew just one year before.

To be sure, Witt deserves ample praise, but do not miss the lesson of FEMA's rebirth. The change he brought to FEMA is to varying degrees within the capabilities of any government agency or department with strong leadership. "It is absolutely critical that you look ... at your role and mission," he says, "and redefine that role and mission to what you feel is important for that agency to be responsible for." In other words, you can't expect to do a good job unless you know what job you're trying to do. □

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Memo of the Month

United States Department of Agriculture | Forest Service | Washington Office | 14th & Independence SW, P.O. Box 96090, Washington, DC 20090-6090

File Code: 1200
Route To : 1000

Date: March 6, 1995

Subject: Horizontal Behavior

To: Deputy Chiefs, Associate Deputy Chiefs, and WO Staff Directors

In two recent situations, we have responded to requests for information from Congress by asking a single staff group to prepare the information. These incidents have been identified as the personifications of "linear" as opposed to "horizontal" behavior in the organization. A previous set of operative language would have contrasted this as "functional" as opposed to "corporate behavior."

Please be sensitive to these perceptions--which do have merit--in assigning or responding to such requests for information. I expect Deputy Chiefs, Associate Deputy Chiefs, and WO Staff Directors to emphasize and to be able to assure that "horizontal" behavior has been considered and instituted to the extent appropriate to the specific situation.

Jack Ward Thomas

JACK WARD THOMAS
Chief

cc:
Jim Lyons, Under Secretary, NRE
Adela Backiel, Deputy Under Secretary, NRE
Dave Unger, Associate Chief

Caring for the Land and Serving People

FS-6200-28b(3/92)

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Laws for Sale

The Republicans said they would change Washington and they have—for the worse

BY GARETH COOK

Washington state's Republican Senator Slade Gorton was as eager as a six-year-old with a brand-new toy. The draft for a new Endangered Species Act had just been completed, and he wanted to introduce it on the floor of the Senate as soon as possible. But one Gorton aide advised caution. "It is important," she wrote in a memo, "that we have a better than adequate understanding of the bill prior to introduction.... The coalitions should have a section by section general summary of the draft bill together today."

The "coalitions" the aide referred to were a collection of industry groups—most notably paper and timber companies—that had much to gain from eviscerating the Act's protections. The reason the coalitions had the knowledge to provide summaries—and the reason the Senator did not have "a better than adequate understanding" of the bill—was that Gorton, who had received hefty campaign contributions from the coalitions, simply let them draft the new legislation themselves.

Such stories are becoming commonplace on Capitol Hill, prompting many to ask whether the Republicans are indeed living up to their promises. If the Republicans had a central message in the 1994 elections, it was this nugget of quasi-populism: It's time to throw the bums out and change the way Washington conducts its business. This broad-ranging philosophy, much more than the individual items of the Contract With America, was the GOP's true mandate. Polls show that most voters were not even familiar with the Contract's details. Rather, many were energized by the sense that Republicans would break through the partisan dams and challenge Washington's entrenched elite.

Even liberal commentators seemed ready to admit that the Republicans were delivering: congressional staff cut by a third; useless committees dropped; a legislative checklist completed. It is hard to recall a time when "Accountability" and "Responsibility," earnestly capitalized, were such popular words on Capitol Hill. Finally, proclaimed Republicans, the very culture of Washington was being changed.

But the Republicans' work on one of their top legislative priorities—the reform of government

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regulation—tells a very different story. From behind the Capitol's closed doors emerges a portrait of everything voters hate about Washington: special interests laying down fat campaign contributions to gain a Congressman's ear and, at times, his pen.

To be sure, the lines between lobbyist and lawmaker were blurry in the Democratic Congress; both parties have a soft spot for special interests. But under the Republicans the combination of influence and money is even more combustible. The people's new representatives are openly targeting well-funded interests and giving these interests license to rewrite laws which can directly boost their bottom line. With the Republicans, notes Alex Benes of the Center for Public Integrity, "it's more open, more audacious. They make no bones about it."

Indeed, instead of challenging Washington's lobbyists—who, before the election, Gingrich blamed for "a grotesque distortion of the public will"—the would-be revolutionaries have been tripping over themselves to embrace them in an efficient effort to extract as much money for the 1996 campaign as they can. And when the soft touch hasn't worked, the GOP has been more than willing to issue threats.

Before the election last fall, Gingrich laid down a tough line with the Political Action Committees (PACs): "For anybody who's not on board now," he said, "it's going to be the two coldest years in Washington."

With the election won, their message got even tougher: It's not enough to give to the Republicans; PACs must also stop giving to the Democrats. Bill Paxon, chairman of the National Republican Congressional Committee, distributed to Republicans a list of the 400 largest PACs, breaking down their giving history by party. GOP congressmen, Paxon said, should know who their friends are.

Charles Mack, president of the Business Industry PAC, understood the new money message very clearly. "In meetings with the new leadership," reads a January 12 memo from Mack to his committee members, "I am being told that they are scrutinizing to whom companies and business associations are currently giving—that they take a very dim view indeed of access contributions to lawmakers who have tended to vote against business." Further down, he adds that "some committee chairmen are reportedly denying access to lobbyists who support the other side."

While some lobbies are experiencing the cold winter Gingrich forecasted, those who have paid the price of admission are having the best Christmas ever. Few prospects have stirred more excitement among Washington's business lobbyists than the chance to rewrite the federal government's protections of the environment, health, and safety. Loosening these protections—and making it more difficult to write new ones—can translate into big money.

Project Relief

Even before the new Congress convened, Representative Tom DeLay, the Republican majority whip, was assembling a coalition called "Project Relief." The Project brought together more than 100 groups (and their lobbyists) behind a very narrow cause: stopping federal regulations of business.

The honor of serving on Project Relief—and helping to draft the legislation—did not come cheaply, according to a painstaking study of Federal Election Commission (FEC) records by the Washington, D.C.–based Environmental Working Group. In just two years (1993-1994), the 115 PACs now associated with Project Relief gave members of the House $10.3 million. DeLay alone received $38,000. Indiana Republican David McIntosh, the chairman of the House Regulatory Affairs Subcommittee, received $37,000 from Project Relief PACs.

Even before DeLay had finished moving into his new office, the collection of powerful business and industry lobbyists convened, according to a March article in *The Washington Post*. Gordon Gooch, a lobbyist for petrochemical companies, wrote the first draft of a bill that would use a blunt, baby-out-with-the-bathwater weapon: a multi-month moratorium on *all* new

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federal regulations. Even health and safety regulations, no matter how pressing, would be stopped in their tracks.

Gooch's draft was revised several times over the next few days by the gathered lobbyists, extending the length of the moratorium and reflecting some rather parochial interests, the *Post* reported. Union Carbide lobbyist Peter Molinari inserted a clause that would help the company in its ongoing legal battle with the Department of Labor. Paul Smith, a lobbyist for UPS and various car-leasing companies, added another provision that would prevent the courts from imposing a new clean air requirement on vehicles in California.

The legislation was completed and, in the hectic Contract days of the House, it moved quickly. The Project Relief lobbyists, having played a vital role in drafting the legislation, played an equally vital role in passing it. With a communications budget estimated at $500,000—for advertisements, mailings, and targeted faxes in support of the regulation ban—the group divided up wavering lawmakers among the lobbyists who had the best shot at winning their hearts, or at least their votes. The bill passed easily.

There are signs that the Republicans are playing an even meaner game than their Democratic predecessors. Take the House Transportation and Infrastructure Committee, where this year's reauthorization of the Clean Water Act (if it can still be called that) was composed. Under the Democrats, despite the usual bickering and disagreements, the committee had done its work with some attention to balance. It included staffers from both sides of the aisle in drafting the bills. When Chairman Bud Shuster (R-Pa.) himself was in the minority, he praised the inclusiveness. "It is important to mention," he once wrote, "that the process by which this bill was prepared has been completely fair at every step of the way. The minority staff has been involved in the discussions on the bill and ideas have been freely shared."

Contrast that with the letter Shuster received from committee Democrats, the new minority, who complained that they had been locked out of the drafting altogether. "This year's process has been limited almost exclusively to the regulated business community."

To draft the bill, Shuster convened a coalition of all the powerful groups who were being regulated and asked them to come up with legislation. The wetlands task force, for example, was headed up by the National Wetlands Coalition, which is funded by a spectrum of industry groups that seek the repeal of environmental protections. The task force on "point source" pollution (e.g., pollution from a particular factory) was headed up by the Clean Water Industry Coalition and the U.S. Chamber of Commerce, whose members include many of the most egregious polluters in the country.

Environmental groups, however, are conspicuously absent from the membership list. Even the Environmental Protection Agency (EPA), which is charged by Congress with carrying out the law and which does, after all, have some expertise on environmental regulation, was locked out of the drafting, as were Democratic staffers.

The final product reflects its authors. Broad changes would make compliance with the Act's storm water program, which limits pollution from runoff, little more than voluntary. Another provision directs that EPA limits on toxic discharges into the Great Lakes be interpreted only as "guidance" for the states. The Chemical Manufacturers Association, whose lobbyist Rose Marie Sanders sat on the "point source" panel, won a provision that would allow chemical makers to be considered in "statistical compliance" with pollution limits if they only exceeded the limits some of the time.

Democrats had suspected that lobbyists for major polluters had played a role in drafting the reauthorization act. They discovered how true this was at the staff meeting where Democrats were finally shown a copy of the legislation. Still at the top of the faxed document was the tag line with its point of origin, the name of one of the firms lobbying for industry.

Dole Rushes In

In some areas, the Senate has moderated the House's excesses. The moratorium bill pushed through by Project Relief was too extreme even for many Senate Republicans. And some of the Clean Water Act's bigger sell-outs will likely be toned down. But on a more sweeping House

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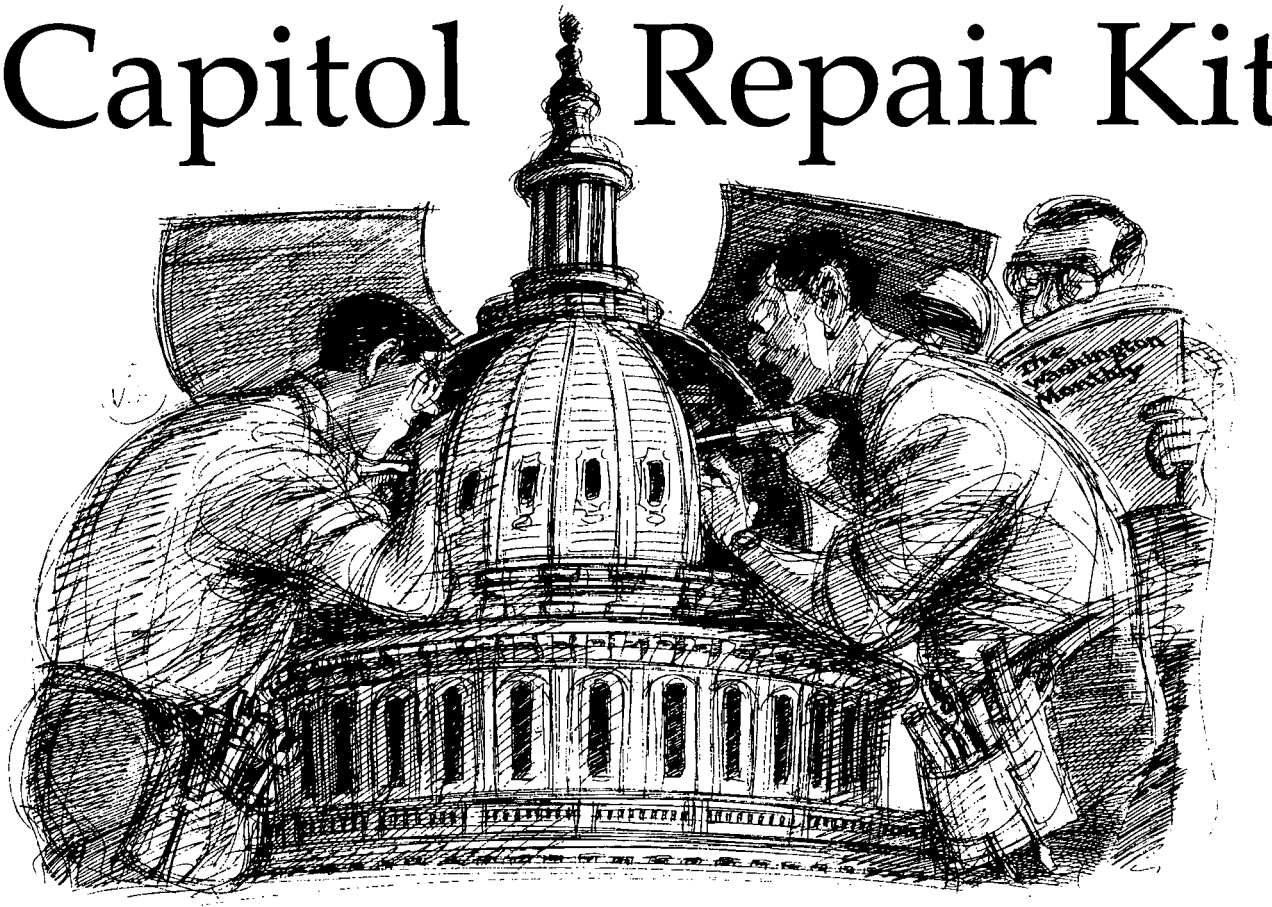

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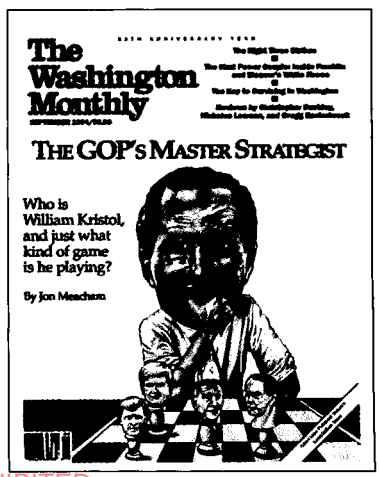

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measure—to require elaborate cost-benefit analysis, making it extremely difficult for the government to issue new regulations to protect the public—Senate Majority Leader Bob Dole staked out the radical extreme.

Dole decided to sponsor the Senate bill himself, recognizing, no doubt, that he could use the bill to prove his own revolutionary credentials for the 1996 campaign—and maybe even raise some money as well.

C. Boyden Gray, a lobbyist for Wilmer, Cutler & Pickering, wrote an initial draft of the bill back in December. Not surprisingly, Gray has donated money to the Dole presidential campaign.

The people's new representatives are openly targeting well-funded interests and giving these interests license to rewrite laws which can directly boost their bottom line.

Dole's point man on regulatory legislation is Kyle McSlarrow, who had worked at Hunton & Williams, a lobbying firm that has been heavily involved in the lobbying for regulatory reform. But McSlarrow's ties to industry don't end there. Last year, McSlarrow ran a losing race for Congress in Virginia's eighth district, leaving him saddled with campaign debts. Yet, after his job with Dole was announced—but before he officially joined the payroll—he was able to raise thousands of dollars to pay his creditors.

Many of the PACs interested in helping McSlarrow were also interested in stripping government's ability to protect the environment, human health, and safety: the R. J. Reynolds PAC donated $500; the National Federation of Independent Business PAC, $1,000; General Public Utilities PAC, $500; Georgia Power Co. PAC, $1,000; and the list continues. People who lose elections don't typically raise money so easily—unless, of course, they have something to offer.

The work of McSlarrow's old firm shows just how far lobbyists will go if they think they can get away with it. Early in the year, Hunton & Williams sent letters to dozens of companies interested in regulatory rollback, telling them that, for a $5,000 retainer over the first 100 days, it would deliver "quiet, behind-the-scenes intervention."

Intervene they did. *The New York Times* reported that two of the firm's partners, Henry Nickel and Turner Smith, Jr., helped draft Dole's bill and that one of its provisions—allowing amenable local officials to overrule the EPA—promised to be especially helpful to one of the firm's clients, Hoechst-Celanese, a chemical company that is fighting the EPA in court.

Emboldened by the free-wheeling environment, Hunton & Williams wasn't able to keep it "quiet" for long. Democratic staffers tell of an unusual staff briefing on a new version of Dole's regulatory reform bill. The purpose of the briefing was for the Republicans to explain to the Democrats what the bill would do. But Hunton & Williams lawyers did most of the explaining of the details. This brazen display left little doubt as to who actually wrote the bill, but it did raise doubts about whether the Republicans sponsoring it really understood its finer points.

The lobbyists who were entrusted with drafting and explaining the legislation, of course, are vigorously pursuing their clients' interests, and the identities of those clients are not always made clear, even to the Republicans. Consider Hunton & Williams's George Freeman, Jr. Even as his firm was soliciting clients at $5,000 a pop, Freeman was convincing the American Bar Association (ABA) to make him co-chair of the Working Group on Regulatory Reform.

Then, under the aegis of the ABA, he went to work on the Hill. When a few staffers were surprised to hear that the ABA supported some of the bill's more extreme (or just sloppily worded) measures on judicial review and cost-benefit analysis, though, they called the ABA and discovered that Freeman had been spinning the Association's position a bit in favor of his clients. As one who has worked with Freeman told the *Monthly*: "He was just a little too much of a freelancer." The ABA eventually forced Freeman off the panel.

But Freeman is just one of thousands of lob-

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byists swarming Capitol Hill—and their efforts are undergirded by serious money. PACs associated with Project Relief, for example, have given nearly $9 million to senators over the past six years, according to an Environmental Working Group analysis of FEC data. And, according to *Congressional Quarterly*, of the $113,900 Dole raised from PACs for his presidential bid in the first three months of 1995, $28,000 has come just from those involved in the regulatory reform effort.

Dole is not the only one thinking ahead to 1996. The House leadership is well aware of what happened after Republicans won majorities in 1946 and 1952—they lost them in the next election. Republicans are determined to not let that happen again. To be sure it doesn't, they need money.

Already, Republican efforts to pressure business groups to focus their giving on Republican candidates is paying off. In the first three months of 1995, the top-ten givers cut checks for GOP candidates totaling $688,000, compared to just $175,000 for Democrats. The Republican Congressional Campaign Committee took in $10 million in the first third of this year—three times what it received last year.

Democrats like Tony Coehlo talked tough to PACs in their time, even pressuring them not to give to "the enemy." But the Republicans have brought a new level of aggressiveness to this sort of behavior. House Majority Leader Dick Armey even wrote to corporate executives to complain that "big business is behind the welfare state." He reprimanded those who had made donations to "center-left" organizations such as National Geographic and such "liberal" organizations as the American Cancer Society and the American Lung Association.

Project Relief's DeLay, according to *The New York Times*, has been even more aggressive. He recently sent out a letter to all the PACs which had donated money last election to losing Democrat Mike Kreidler in an effort to raise funds for the Republican victor, Randy Tate. The message was blunt: "I understand you supported Randy Tate's opponent, Mike Kreidler, with a contribution of $500 during the 1993-1994 campaign cycle," one letter reads. "While I was surprised to see you oppose Randy Tate, you now have the opportunity to work toward a positive future relationship.... I want you to know that your immediate support for Randy Tate is personally important to me and the House Republican leadership team.... I know I speak for the majority of our conference when I say that we are anxious to have [your PAC] support the incumbent and not be idle until next year."

Republicans are also opening a new chapter in Congress's relationship with lobbying firms: They are trying to make the firms themselves more Republican. If you want to be successful in your lobbying, the message is going out, better hire Republicans. Sometimes this is subtle, like asking lobbyists to leave their resumes before they can see Congressmen so the lobbyists' party affiliations can be ferreted out. Other House Republicans are less subtle: They just ask.

A group of House Republicans, led by National Republican Congressional Committee chair Bill Paxon, is compiling a list of the party affiliations of some 1,000 Washington lobbyists to distribute to congressional Republicans. This is all part of a broad and conscious strategy to harness the power of the Washington lobbying establishment. The Republicans well know that the K Street crowd forms a permanent and powerful shadow government. Lobbyists can provide advice and research, and even draft legislation. They can organize grassroots campaigns. And, of course, they can persuade their clients to donate enormous sums of money.

Republicans freely admit that this tactic is new. "This is different from Coehlo," says David Rehr, a lobbyist for the National Beer Wholesalers Association with close ties to the new leadership. "Paxon believes we must maximize every opportunity." It's war, in other words, and all's fair.

Republicans insist, though, that the criticism of their cozy relationship with lobbyists is a case of sour grapes. "It's the classic *Casablanca* reaction: The policeman walks into the bar and says 'I'm just shocked that there is gambling in Casablanca,'" says Rehr. "It's still the same game ... the players have just changed chairs."

But the new players have brought new rules. And the voters are stuck with a much meaner game. □

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Tidbits & Outrages

I'M GONNA GIT YOU, SUCCAH

The New York Times reports that the district attorney of Rockland County, New York, Kenneth Gribetz, pleaded guilty to charges that he used county investigators to deliver copies of a book he wrote, to chauffeur him and a woman he was having an affair with to various social events, and to build the Gribetz family's succah, a wooden booth put up for the Jewish holiday of Succot.

CAPITOL PUNISHMENTS

Sheriff Joe Arpaio of Maricopa County, Arizona plans to pipe Newt Gingrich's lecture series into the county's jail cells via cable TV.

"SON, WANNA TOUCH MY W-2?"

New York state's attorney general is suing to retract Zymurgy Inc.'s eligibility for tax-deductible donations. The attorney general believes Zymurgy is a front for the North American Man-Boy Love Association, a group that advocates homosexual pedophilia.

INVASION OF THE TV DINNER SNATCHERS

Astronomers recently suspended a four-month, multimillion-dollar search for signs of intelligent life elsewhere in the universe when the only signals their radio telescope picked up were determined to have come from microwave ovens.

HE'S GOT A GOOD STIFF-ARM

According to the *Los Angeles Times*, the Canadian Football League's Ottawa Rough Riders recently drafted a player who had died months earlier.

"FIX!" SAID PETE ROSE

The Sports Marketing Newsletter revealed that in a recent poll asking people to name the athletes they most admired, Tonya Harding, O.J. Simpson, and Mike Tyson each finished in the top 20.

AT LEAST HE WAS PRACTICING

Tass reports that a missile launched by a Russian pilot on a practice mission went out of control and exploded just 200 yards from the outskirts of Voronezh, a city of one million inhabitants just three miles from a nuclear power station.

—Scott Shuger

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Ames, Aldrich Ames

How one bumbling bureaucrat outsmarted America's top intelligence agents

BY WALTER PINCUS

Nightmover
David Wise, *HarperCollins, $25*

Killer Spy
Peter Maas, *Warner Books, $21.95*

Betrayal
Tim Weiner, David Johnston, and Neil A. Lewis, *Random House, $25*

If ever there was a clarion call for a good hard look at the practice of espionage in the post-Cold War world, Aldrich H. Ames provides it. In need of money in the mid-eighties, Ames, a 30-year CIA veteran, turned to spying for Moscow, exposing every major American spy to the Soviets. Characterized by colleagues and investigators as lazy and inept, he somehow managed to avoid detection for nine years before his arrest in February 1994, even as he pocketed over $2.7 million.

How could the Soviets have penetrated the CIA so deeply? Why would a veteran agent suddenly turn to the KGB? Moreover, why did it take nine years for the CIA and FBI to recognize the obvious signs that Ames was on the take? Three new books take stabs at the Ames case: *Nightmover* by David Wise; *Killer Spy* by Peter Maas; and *Betrayal* by David Johnston, Neil A. Lewis, and Tim Weiner, the three *New York Times* reporters who covered Ames. Each book is layered with the intrigue of espionage, but even taken together, the three leave many of the fundamental questions raised by the Ames case unanswered.

The books succeed, however, in one very important area. In the process of tracking Ames over his three decades in the CIA, the authors give a valuable portrait of Agency culture, particularly the practice of recruiting spies. With a few exceptions, CIA operations officers and FBI counterintelligence regarded recruiting Russian spies as their chief mission. Recruiting is clearly one of the foundations of intelligence, and as portrayed in these books, it has a lot to answer for.

Ames first tried his hand at recruiting in Turkey in 1971. Never mind that it was too difficult for the rookie recruiter Ames to turn a seasoned KGB officer, Wise writes: "A young first-tour officer was not expected to do much more than try." If a Soviet couldn't be snared, the ethic held, then recruit someone, *anyone*. One of Ames's superiors in Turkey ordered him to recruit a Pakistani second secretary as an "access agent." Pakistan, of course, was on our side. What benefit the CIA would reap from a low-level bureaucrat within a friendly government wasn't the kind of question one asked; spies were collected for their own sake.

Ten years later, Ames, who by this time had shown little talent at recruiting, was sent to Mexico. There he set out after no less a person than the chief Soviet counterintelligence official in Mexico, one Igor I. Shurygin. It was around this time that Ames began to show signs that he had been turned.

Walter Pincus, national security reporter for The Washington Post, *covered the Ames case.*

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One CIA analyst reviewing Ames's reports on the meetings, Wise writes, concluded in 1985 that "Ames had not been getting anywhere in developing Shurygin." Moreover, he adds, "it looked more like Shurygin was developing Ames rather than the other way around." Yet only Wise seems to explore the relationship in any depth; the other two mention Shurygin only in passing.

The CIA, of course, ignored the Shurygin-Ames relationship completely. Like any bureaucracy, the Agency is violently reluctant to admit to its failures. And no failure stings the CIA as much as losing one of its own to the KGB.

The CIA let Ames continue with his hapless recruiting efforts. Upon his return to Washington to take a key desk position as chief of the Soviet counterintelligence branch, Ames sold his bosses on the idea that he ought to go after Soviets assigned to the embassy. Apparently, it never concerned anyone that Ames, loaded with information about every American spy in the U.S.S.R., might use these recruiting meetings as cover for his own opening ventures as a spy.

Moreover, no one asked whether we needed another spy in the Soviet Embassy. The FBI, Maas writes, was already handling two KGB officers out of the Embassy: Lieutenant Colonel Valery F. Martynov and Major Sergei M. Motorin. Both were recruited by FBI operatives in the early-eighties only to be exposed to the Soviets by Ames.

In part, the two spies helped the FBI recruit more Soviets who, one supposes, would then have told us which of their colleagues might have made further FBI recruits. This game of spy marbles played by the CIA and KGB is entertaining, for sure. But it raises the question, how much penetration is enough? It reminds me of the old saying that toward the end of J. Edgar Hoover's time most members of the U.S. Communist Party were paid agents of the FBI.

The books also fail to answer why Ames decided to become a spy in the first place. To date, we have only Ames's own unsatisfying explanation that the need for money suddenly overcame his fear of discovery. FBI polygraphs show that he may have been lying about his motivations, but these authors seem to take him at his word.

The reason the Ames case calls for greater probing is that it shows how easy it was for an agent to betray his country once he decided to take the first step. Loyalty to the Agency and fear of being caught faded from Ames's mind easily. This isn't very surprising. Loyalty and fear are hard to instill in a bureaucracy whose mission is neither clear-cut nor important. With the disappearance of the Soviet threat, the CIA's bloated ranks have sought new missions, some cloudy and insignificant, paving the way, perhaps, for more Ameses.

Those who appreciate how we journalists reflect our sources will find a fine example in how the books deal with the question of why the FBI didn't open its criminal case until five months after the joint CIA/FBI task force determined that Ames was the number-one suspect.

Wise, with his heavy CIA input, says the "CIA mole hunters" were ready for the FBI to start the case against Ames in January 1993. A delay developed, "when the FBI decided to await the final report of the joint CIA/FBI mole-hunt team before moving." There was also disagreement within the FBI "over whether there was sufficient evidence to open a full-fledged counterintelligence investigation of Ames."

Maas, on the other hand, who wrote the book with FBI cooperation, states that by December 1992 FBI Deputy Director Robert M. "Bear" Bryant "had seen enough.... He wanted to open an official investigation immediately.... But the CIA resisted furiously. Bryant just didn't understand the seriousness, the delicacy, of what was at stake. This concerned a career agency operations officer. Something like this was without parallel. You had to be absolutely certain."

Underpinning any discussion of the Ames case should be the understanding that Ames's aid to Moscow, the worst security failure in CIA history, had little, if any, effect on the Cold War in general. Despite the fact that America's clandestine efforts in the Soviet Union were crippled by Ames for a few years, we still won the Cold War. Does anyone really believe that things would have changed at all had Ames not exposed the CIA's Soviet spy network? Today, the CIA can't afford the overblown rosters and overlooked mistakes of the past. Perhaps that is what scares the CIA about the Ames affair. Smaller threats should mean fewer case officers recruiting even fewer, but more sharply targeted, agents. If the CIA continues to put foreign agents on the U.S. payroll at high levels worldwide for their own sake, without regard for what they accomplish, its critics can fairly ask, why continue to do it at all? □

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Barbarians Inside the Gates

The world of powerful central bankers and currency traders

MICHAEL M. THOMAS

The Vandals' Crown
Gregory J. Millman, *Free Press, $23*

The Confidence Game
Steven Solomon, *Simon & Schuster, $30*

In the summer of 1993, I found myself at a cocktail party on the island republic of Jamaica. Among the other guests was a young man who had just left a job at the Ministry of Finance. I asked him about a story in that morning's *Gleaner* (Jamaica's newspaper of record) which reported that the Bank of Jamaica was considering taking a $24 million loan from the World Bank to defend the declining Jamaican dollar on the foreign exchange markets.

Before he could answer, I blurted out, "Are you people crazy? Do you know how long $24 million will last on the computer screen of some 20-year-old foreign exchange trader in New York? About 10 seconds! You'd be better off borrowing the money and giving $5 to every inhabitant of this island!"

I still think this was sound, if impolitely delivered, advice. The question it addresses—who controls the world's currencies?—is the subject of two excellent, readable, and wide-ranging books about the brave new world of globalized finance.

The first, by Steven Solomon, concerns itself with the central bankers. He begins with what Hollywood script people call "the inciting incident"—namely, the October 1987 market crash—and then he circles back through history. His focus, though, is what might be called finance's postmodern era, the origin of which must surely be dated back to August 1971, when Richard Nixon took the dollar off the gold standard. The book is engrossing; Solomon's research is meticulous and he presents his case gracefully.

The second work, by Gregory Millman, looks at the currency speculators. Admittedly journalistic and anecdotal, *The Vandals' Crown* spends much of its time on the personalities behind the new trading strategies and financial instruments that have radically accelerated the rate at which capital can be deployed. Millman takes the reader a very long way toward knowing how a handful of anonymous currency speculators can, in an instant, wreak havoc on international finance. This is a fine book as well, and a splendid complement to Solomon.

So complementary are the two books, in fact, that the provocative subtitles on their jackets pose a contradiction. "How Rebel Currency Traders Overthrew the World's Central Banks" trumpets the cover of *The Vandals' Crown. The Confidence Game*, meanwhile, placards, "How Unelected Central Bankers Are Governing the Changed World Economy." If the central bankers have indeed been overthrown, as per Millman, how can they be governing the world economy, as per Solomon?

The fact is, the central banks today are neither governing nor lying dead on the battlefield. They are merely struggling with forces often beyond their comprehension and control.

For most of this century, from the founding of the Federal Reserve Bank in 1913 until about 10

Michael M. Thomas, a former partner in two major Wall Street firms, writes "The Midas Watch" for The New York Observer *and is the author of six novels.*

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years ago, the central banks exerted their hegemony because, simply, they had more money. The kinds of massive speculative attacks we have seen in recent years on the pound, the lira, the franc, the peso, and—for the last few months—the dollar, succeed only when the private sector, with no loyalty other than to its purse, has more resources than the central banks at its disposal. At that point, selling power simply overwhelms buying power. Large pools of available capital, the ego and greed of financiers, and the public's notorious, exploitable lack of concern and understanding of high finance (public and private) add up to a potent recipe.

If I were made of sterner stuff, I would take Solomon and Millman to task for giving us more history than we need to know as we confront the present. What we need to know is the following: Beginning in the seventies, huge pools of dollars came into being over whose creation the Federal Reserve chose to exercise no control. The proximate cause was OPEC's sextupling of the price of oil. But the principal culprits were the American banks, led by Citicorp's Walter Wriston, whose doctrine of "petrodollar recycling" has, I sincerely believe, brought misery to more people around the world than anything perpetrated by Stalin, Mao, or Hitler. When OPEC insisted that oil transactions continue to be settled in dollars, most OPEC customers, like Jamaica, had no internal means of generating enough dollars to meet the price increase. The United States should at this point have told OPEC, in effect (by jawboning our large banks), to accept payment in local currencies and either take its chances in the foreign exchange markets or reinvest those receipts in the country of origin. Instead, they came up with "recycling": Citibank would lend Jamaica the U.S. dollars to pay its OPEC bill, OPEC would deposit those dollars in Citibank, Citibank would lend more dollars to Jamaica, now to pay not only for oil but also for interest on the prior loan, and so on, and so on to the inevitable ends of destitution and default. U.S. banks, chasing paper profits to drive up the price of their shares, went wild overseas, lending as they pleased without being limited (as they were in domestically transacted business) by Federal Reserve regulations.

The banks' motivation was to create large paper and cash profits in loan-origination and servicing fees as well as interest. They side-stepped the real point of lending, which is to get your depositors' money back, and yielded to the seemingly uncontrollable compulsion of financiers to be at the heart of the action, whatever that action is. Best of all, these recycling loans could be made offshore, through subsidiary banks in countries well beyond the Fed's reach. These loans in effect minted new U.S. dollars without the Fed's by-your-leave. By the end of the seventies, no one—including the Fed—could say within $350 billion how many of these offshore dollars were out there.

At the conclusions of their books, Solomon and Millman both seem shaken by their journey. Here is Solomon: "The uncontrolled, high-speed gyrations of stateless money unhinged from economic fundamentals or national economic policies has transformed the international monetary system ... into a fully-floating, private non-system driven by the roller-coaster shifts in focus and manias of the collective herd of global financial investors."

Can anything be done? And if so, who should do it? One answer may be for the central banks to do nothing. If a central bank is unwilling to dissipate its reserves in defense of its currency, as the United Kingdom, France, and Mexico did to notorious result, the rough market tides will soon level off. Sellers, whether long or short, need buyers.

Financial technology and a world-wide flight from industrial investment have allowed the capital markets to capture the lion's share of world liquidity. We have to understand that we are living in a world as different from the one in which Bretton Woods was convened as the Copernican galaxy was from the Ptolemaic. It may be that the great truth of finance and investment abides: namely, that all things in time regress to the mean. But the path by which that regression is reached will change regularly. New road maps are constantly needed.

In other words, to know where to begin, we need to know more about where we are. Books such as *The Vandals' Crown* and *The Confidence Game* are extremely useful in helping intelligent lay people begin to find their way in a maze kept tortuous by those who most profit from its complexity.

Until we have absorbed these lessons, though, perhaps the best we can do in our own interest is to ask our great men, beginning with the present chairman of the Federal Reserve Bank, to desist from showing us how clever or determined they are, to stand aside and let the market sort out its mischief all by itself, without the intervention of the heavy, foolish, and far from invisible hand of government. □

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Political Booknotes

Friends In High Places
Douglas Frantz and David McKean
Little, Brown, $24.95
By Charles W. Bailey

The office was a triumph of political ergonomics. From where the visitor was seated, his eyes were irresistibly drawn to the view through the window behind his host's desk: There, under the sheltering elms, stood the White House. It was a prospect that bred hubris, the archetypical Washington malady that infects so many men drawn to great affairs. And of no one was this truer than of Clark McAdams Clifford, who did to himself what no one else could have done: He destroyed his own good name.

Friends in High Places, written by *New York Times* reporter Douglas Frantz and congressional staff member David McKean, is a compelling political biography that explores both the man and the creature he exemplified, the Washington lawyer-lobbyist. Based largely on interviews with more than 100 of his acquaintances and associates, as well as 50 hours with Clifford himself, the book meticulously traces the long arc of Clifford's half century in Washington.

He served in the government for only six of those 50 years. But for those few years he was at the top—first as a White House aide under Truman and two decades later as a cabinet officer. By the mid-sixties, a time when politics was still much more an insider's game than it is now, Clifford's reputation was assured. He had been an advisor to the Kennedy Administration and an intimate counselor to Lyndon Johnson.

There is a great deal of interesting detail in this book: about Clifford's life and family, about his years in the Truman White House and the Johnson cabinet, about his role in changing America's Vietnam policy, about his law-and-lobbying career. But it never quite answers the most intriguing question about Clifford: Why, in the twilight of a legendary career as a lawyer-lobbyist, did he ignore the advice he had given so many others and involve himself with a pack of international bankers of dubious repute?

In his prime, Clifford was improbably handsome, tall with wavy blond hair turning to silver, a rich baritone voice, and a dignified manner. Always impeccably groomed and clothed, he personified respectability, prosperity, and success. Beneath this velvet exterior, though, was a hard, cynical core that delighted in the acquisition of power and the use of influence.

This combination drove him to remarkable achievement. "He reshaped the way lobbying worked in the nation's capital," the authors write, "making it respectable and even desirable to trade quietly on relationships with government officials." Indeed, while Clark Clifford did not invent the powerful lawyer-lobbyist, he perfected the role and played it with more sophistication than anyone of his time. This book shows how he honed a winning formula—combining hard work, a keen acquisitive instinct, the cultivation of powerful men, and a carefully tended image as a "man of influence" in the capital city—and thus parlayed each success into a larger success.

One of Clifford's first coups was to earn the trust of President Truman—and a reputation as a man of wisdom and influence—on the basis of a brilliant political memorandum which he did *not* write: the famous strategy paper that formed the basis for Truman's 1948 presidential campaign. James Rowe, himself a former White House aide to FDR, wrote the memo, but Clifford signed his own name to it and took full credit when he sent it to the president.

One of the men who was impressed became one of Clifford's first patrons: Senator Robert Kerr of Oklahoma, a ruthless self-made oil millionaire. This rough-and-tumble politician was a close ally of Lyndon Johnson, and therefore one of the movers and shakers in the Senate. Kerr cultivated Clifford; Clifford reciprocated. Kerr brought him his first big client, Phillips Petroleum Company. In return Clifford provided Kerr with political counsel, entrée to Washington society, and support for his aborted 1952 presidential candidacy. Kerr was no Adlai Stevenson.

In garnering new clients, Clifford made liberal use of an obscure Washington art: affirming by denying. Frantz and McLean reproduce a very early version of the Clifford mantra, delivered to multimillionaire Howard Hughes:

> "Before we proceed there is one point I must make clear. I do not consider that this firm will have any influence of any kind here in Washington. I cannot, and will not, represent any client before the President or before any of his staff. If you want influence, you should consider going elsewhere."

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Clifford repeated variations of the mantra to every prospective client, but how could it be taken as anything but a confirmation that Clifford was very well-connected indeed?

Clifford did quite well for himself, until the BCCI scandal. (He did so well, in fact, that at the time of his indictment in 1992 he had more than $19 million in cash and securities in two New York brokerage accounts, all frozen by court order.) The affair was complex, but it boiled down to the takeover of a U.S. bank by the Bank of Credit and Commerce International (BCCI), a Pakistani bank, which used dummy investors to conceal its real control.

Clifford was hired to help BCCI with the needed U.S. government approvals—and then was hired as chairman of the Washington-based bank. In sum, he lent his name and reputation to the foreign bankers, and they in return gave him a highly lucrative and prestigious position. BCCI got credibility; Clifford got a lot of money and the added clout of being a banker.

The banking connection was an important addition to Clifford's network of influence. That network already included many figures critical to the image of the lobbyist-as-fixer: presidents and press, regulators and prosecutors, senators and representatives, judges, captains of industry and celebrities. To this list was now added "bankers."

Frantz and McLean tell the story of Clifford's association with BCCI in detail. Their account is clear and unsparing, despite the complexities of the matter. The authors stop short of declaring Clifford guilty, but the evidence they put forward seems very strong indeed, particularly on the question of whether he knew that the bank of which he was chairman was in fact illegally controlled by BCCI. Perhaps it is enough to say of that question what Clifford himself said: "I have the choice of either seeming stupid or venal."

BCCI wasn't the first time that Clifford had displayed a willingness to accept unsavory associates in his desire to add the banking card to his hand. A couple of decades earlier, he had served as a director of the National Bank of Washington when it was controlled by the then-corrupt United Mine Workers union. President A. W. "Tony" Boyle, when he wasn't conferring with Clifford in the board room, was busy plotting the murder of a union reformer, a crime for which he was later convicted and imprisoned.

When investigations revealed that union pension funds were being invested for the benefit of the bank and union officials, instead of for the retired miners, their widows, and orphans, Clifford offered no public criticism of either Boyle or the union. He resigned quietly a year later.

From the BCCI affair, though, he could not slip away. But he remained, write Frantz and McLean, defiant to the end: "He saw no reason to give up the notion that a small group of right-thinking men could exercise power and influence without offending anyone." One day in October 1991, Clifford sat before a Senate committee explaining how he could have been unaware that BCCI controlled his bank—in spite of all the evidence. Clifford lectured the lawmakers: "Do I ask you to take my word for that? I do," he declared. "My word has been important for a great many years in Washington."

Charles W. Bailey is a member of the editorial advisory board of The Washington Monthly.

1939: The Lost World of the Fair
David Gelernter
The Free Press, $23
By Nicholas Lemann

This is an immensely charming book that aims to evoke the spirit of the 1939 World's Fair in New York—not just of the fair itself, but also of the city and of American culture generally. In clean, elegant prose,

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Gelernter lovingly describes the fair's exhibits and the architecture, technology, movies, magazines, urban culture, and social mores of the day; and, Doctorow-like, he weaves a narrative about fictional characters amid all the precise nonfiction details. He does quite a good job of bringing the moment back to life. Even the fictional characters' ways of speaking and thinking feel as if they belong to a different time from our own.

To call Gelernter nostalgic would be like calling Bill Gates affluent—it wildly understates the case. He regards 1939 as the halcyon moment in American life, the peak from which we have been descending ever since. What he loves about that time is the pervasive tone of optimism, civility, and respect, and the enthusiasm about applied technology. (It's impossible to avoid thinking of *1939* as a riposte to the Unabomber. Gelernter, a computer science professor at Yale, is the Luddite terrorist's best-known victim.)

The fair itself was a paean to a streamlined future, with particular emphasis on consumer goods like automobiles, suburban homes, and refrigerators. The surrounding city was, by today's standards, nearly crime-free, and otherwise pervaded by a social trust that has since disappeared. Roosevelt on the radio, Fred Astaire movies at Radio City Music Hall, Moses and LaGuardia at the helm of New York, the music of Gershwin and Duke Ellington wafting through the air—that's the idea.

By moving the good-old-days baseline back from the fifties to the thirties and focusing on technology as well as family values, Gelernter has gotten more freshness out of nostalgia than it usually has. And because he has done his homework, he knows enough not to over-burnish the picture. He duly notes the much greater pervasiveness than today of poverty, discrimination, and war. Realizing that at the time he's apotheosizing, a majority of America's leading intellectuals probably were Communists in spirit if not actual membership, he doesn't bother to claim that 1939 was free of political correctness either. (After all, the term was invented around 1939.)

But he firmly insists that something essential and precious existed then and doesn't now. The word he returns to again and again is "authority": "Authority has all but vanished. Its disappearance from American life is just as significant an event, I believe, as the closing of the frontier." In other places, groping for a different term, he refers to the prevalence in 1939 of an "ought culture" or a "civic religion." People followed rules. Children obeyed their parents. No excuses were made for deviant behavior. Men wore neckties when they went out in public and stood when a woman entered the room. There was a real shared excitement about the future.

1939 has something of the quality of a piece of music in which the melodic line is playfully varied but the underlying theme is rigid and unchanging. It's finally more interesting as a narrative experiment than it is intellectually, because the basic point is made over and over in almost exactly the same way without being developed. The one fresh turn that Gelernter makes is to suggest that the disappearance of the mood he admires is mainly attributable not to such familiar villains as the ACLU, psychologists, and liberal judges, but to the dreams of 1939 having come true to such a remarkable extent. Back then what made the society cohere was a shared longing for a bountiful future; once this was achieved, around 1970, no new organizing principle emerged to replace it, and the society disintegrated into individualism and relativism.

The obvious objection to make to a book like *1939*—so obvious as to be almost unsportsmanlike—is that things weren't as great back then, and aren't as terrible now, as Gelernter

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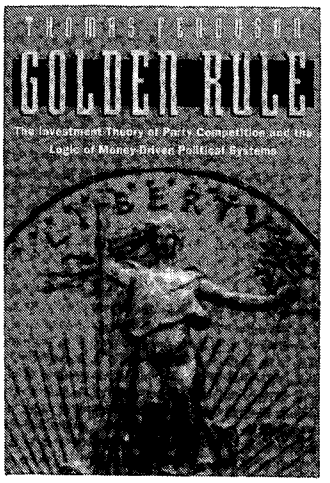

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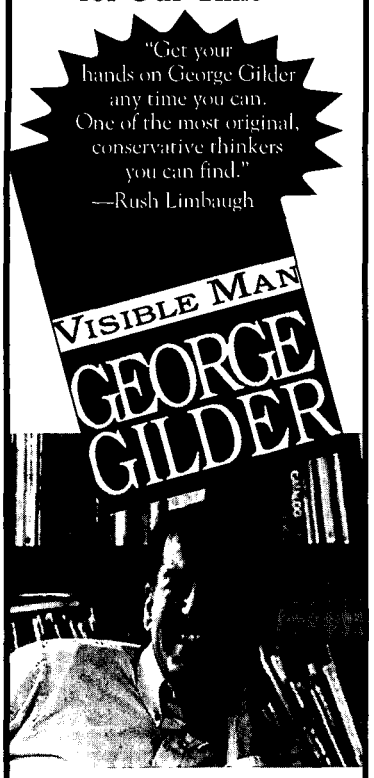

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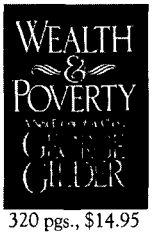

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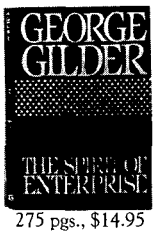

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says. It's more interesting to take him on his own terms and say that he's right to be nostalgic for 1939 but delineates that time's virtues too narrowly. His 1939 is too much *Top Hat* and not enough *The Grapes of Wrath*. He is so completely focused on an orderliness that has vanished that he badly underplays 1939's other main virtue: a democratic spirit of empathy for people in trouble and of universal obligation to help personally in trying to solve America's problems. The erosion of that democratic spirit by snobbery and duty-shirking on the part of the leadership class has contributed greatly to the erosion of Gelernter's beloved authority. Authority holds only when everybody likes and trusts the people who have it.

Nicholas Lemann is a contributing editor at The Washington Monthly *and a national correspondent for* The Atlantic Monthly.

The Nightingale's Song
Robert Timberg
Simon & Schuster, $25
By Michael R. Beschloss

Historians eager to explain Iran-Contra in terms of the hubris and secrecy of the Reagan White House will be startled by this dramatic volume by a former Marine, Annapolis graduate, and current *Baltimore Sun* reporter. Throwing new light on one of the more bizarre episodes in the modern history of American foreign policy, Robert Timberg traces the lives of Robert McFarlane, John Poindexter, and Oliver North of the Reagan National Security Council staff, along with Reagan's Navy Secretary James Webb and Arizona Senator John McCain, a former Vietnam POW. With novelistic skillfulness, Timberg weaves the lives of these men from their days at the U.S. Naval Academy, through the Vietnam War, and into the tapestry of the eighties.

"They are secret-sharers," Timberg writes, "men whose experiences at Annapolis, during the Vietnam War and its aftermath, illuminate a generation, or a portion of a generation—those who went. Each in his own way stands as a flesh-and-blood repository of that generation's anguish and sense of betrayal."

McCain was the son of an Arizona family of old Navy tradition. He was a rebellious, "hard-rock kind of guy" who at the Naval Academy showed himself to be a "natural leader." During the Vietnam War, his plane was downed over Hanoi and he was taken prisoner for five-and-a-half years.

McCain's Annapolis classmate Poindexter was a Boy Scout and banker's son, first in his class, a "cherubic gray eminence" who "thought through a problem and crafted a solution before anyone else realized that a problem existed." After receiving a doctorate in physics from the California Institute of Technology, Poindexter went to sea and was eventually assigned to the staff of Secretary of Defense Robert McNamara.

The son of a Texas Congressman who rode the Democratic tide in 1932, McFarlane was, from his youth, "vulnerable to intimidation and to a disquieting, at times unseemly haste to accept blame when things went wrong." At Annapolis, he was "unflappable, self-contained, at ease with the system."

North, the grandson of a British emigré, had a far tougher time than McFarlane at the Academy, fighting injury and despondency throughout his years there. But for all their differences, their experiences in Vietnam and their bitterness upon returning from the Far East were strikingly similar. McFarlane was confused and angered by the U.S. press coverage of the war and the demonstrations against it. North, who was wounded in Vietnam, returned with the same sense of national betrayal.

Webb was the son of a World War II Air Force major, who, Webb says, "taught me a lot about leadership" and "taught me how to fight." Webb chose

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the University of Southern California for the weather, then switched to Annapolis, where he had a "tough plebe year" because he was "congenitally incapable of playing dumb or backing down." One of Webb's first encounters with North was in the boxing ring. (North won.) While in Vietnam, Timberg writes, it was "inconceivable" to Webb "that the nation could be at war and tens of thousands of men his own age might connive to avoid it, knowing all the while that other young men of similar promise and equally lofty dreams risked living out their futures in darkness." In 1978, he published his acclaimed novel *Fields of Fire*, which depicted the war as experienced on the level of foot soldiers.

By the end of the war, each had a heightened sense of duty and a bitterness at how that duty was betrayed. But the respect for authority ran deep in them all. "It became clear," Timberg writes, "that the Academy training that had helped propel North, McFarlane, and Poindexter into the White House had played a powerful role in landing them in the dock. At Annapolis and throughout their military careers, they had been ingrained with the dictum that the wish of a superior officer was their command.... They knew there were times when a subordinate must say no to a superior, but as the Iran-Contra affair makes clear, their threshold was appallingly high."

In others, the sense of duty manifested itself quite differently. Timberg shows how McCain was finally compelled to tell Poindexter, in vain, "You can't become the first admiral in the history of the United States Navy to plead the Fifth." Timberg finds McFarlane and Poindexter insufficiently seasoned as high White House aides, "like hotshot young reporters who perform brilliantly running down a high-profile scandal but have problems with the more mundane aspects of their job." Of North, Timberg has a more tempered opinion than most. He finds him far more rational than many would expect and writes that those who "persist in comparing North to a Nazi reveal more of themselves than they know."

One need not agree with all of Timberg's judgments to find *The Nightingale's Song* both a gripping story and an important addition to the literature on the Iran-Contra affair. More importantly, it is an absorbing meditation on the America of the past three decades. When these five men graduated from Annapolis, the last thing anyone would have imagined is that their lives would follow the tortuous paths that Timberg traces. Just as tales at the company level often show more about a battle than the grand, official versions, this book might well be assigned by college teachers as a poignant complement to the history of this era.

Michael R. Beschloss is an historian and author most recently of The Crisis Years: Kennedy and Khrushchev, 1960-1963.

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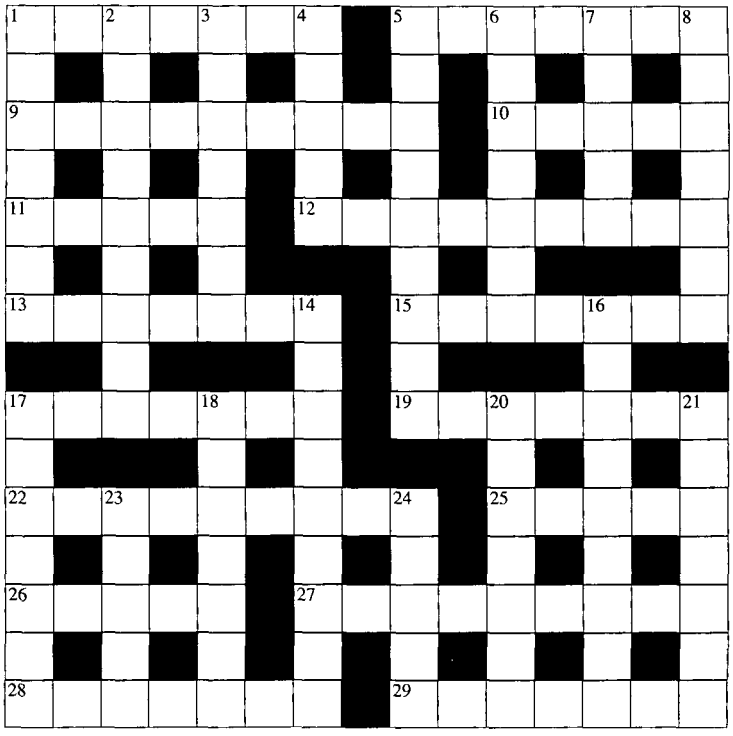
Political Puzzle

BY JOHN BARCLAY

The numbers indicate the number of letters and words—thus (2,3) means a two-letter word followed by a three-letter word. Groups of letters, such as USA, are treated as one word.



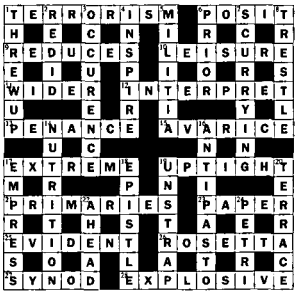
ACROSS

1. Pry vote loose for economic problem... (7)
5. ...and Christmas worker immersed in product is governmental solution. (7)
9. Clumsy slip in event produces standoff. (4, 5)
10. Star group hanging on around carnival site. (5)
11. Architect/demon that is making a comeback. (1, 1, 3)
12. Cheat list disrupted part of school day. (9)
13. They win new New York art museum. (7)
15. Tool she manufactured for part of Africa. (7)
17. November news about shocks? (7)
19. Third party candidate sometimes cured sore lip. (7)
22. Sort of wave that makes man repent. (9)
25. Cover-up about ancient city is shocking. (5)
26. Scope of morning show appearance. (5)
27. Mixed-up dude fared badly and betrayed trust. (9)
28. Cathedral town takes in the German labor leader as social concern... (7)
29. ...and shows up in play as public and private solution. (7)

DOWN

1. Selected movie scenes were VIP production. (7)
2. Invite POW specially for orientation. (9)
3. European speeding, we hear. (7)
4. Conference site near unprofessional uprising. (5)
5. Meets tax requirement in manner of cargo ships? (9)
6. Disaster activists are peculiarly sore lot. (7)
7. Fighter tops two-fold excuse. (5)
8. Mexican disturbed one rest. (7)
14. Formerly mixed teary dyes. (9)
16. OK DAR tail unofficially for current media phenomenon. (4, 5)
17. Substitute making little legislator attack. (7)
18. Car tore around source of power. (7)
20. Aim poll wrongly for basic illumination. (3, 4)
21. Somehow dirtied and fixed up old house. (5, 2)
23. Weave braid with too much enthusiasm. (5)
24. Political dynasty back on board between end of August and beginning of September. (5)

Answers to last month's puzzle:



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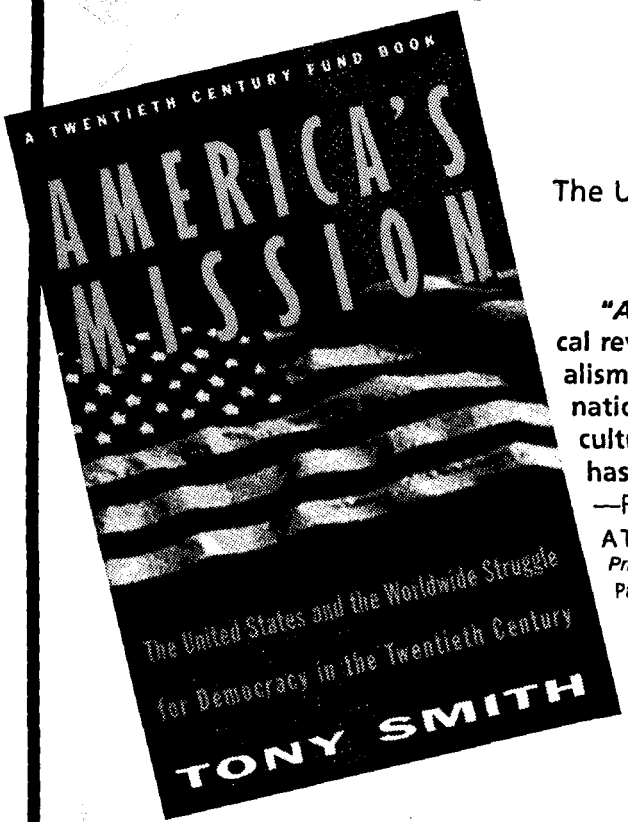

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